METROPCS COMMUNICATIONS INC
Form 10-Q
November 05, 2010
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended September 30, 2010

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from __________ to __________

Commission File Number

1-33409

METROPCS COMMUNICATIONS, INC.

(Exact name of registrant as specified in its charter)

Delaware	**20-0836269**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
2250 Lakeside Boulevard	
Richardson, Texas	**75082-4304**
(Address of principal executive offices)	(Zip Code)

(214) 570-5800

(Registrant s telephone number, including area code)

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

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

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

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

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

On October 29, 2010, there were 354,414,781 shares of the registrant s common stock, $0.0001 par value, outstanding.

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METROPCS COMMUNICATIONS, INC.

Quarterly Report on Form 10-Q

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* No reportable information under this item.

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PART I.

FINANCIAL INFORMATION

Item 1. Financial Statements

MetroPCS Communications, Inc. and Subsidiaries

Condensed Consolidated Balance Sheets

(in thousands, except share and per share information)

(Unaudited)

	September 30, 2010 (1)	December 31, 2009 (1)
CURRENT ASSETS:		
Cash and cash equivalents	$ 889,784	$ 929,381
Short-term investments	1,012,632	224,932
Inventories, net	126,201	147,401
Accounts receivable (net of allowance for uncollectible accounts of $2,462 and $2,045 at September 30, 2010 and December 31, 2009, respectively)	46,737	51,536
Prepaid expenses	60,043	48,353
Deferred charges	63,677	59,414
Deferred tax assets	5,959	1,948
Other current assets	40,721	28,426
Total current assets	2,245,754	1,491,391
Property and equipment, net	3,423,533	3,252,213
Restricted cash and investments	13,632	15,438
Long-term investments	6,319	6,319
FCC licenses	2,490,629	2,470,181
Other assets	140,746	150,475
Total assets	$ 8,320,613	$ 7,386,017
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	$ 418,873	$ 558,366
Current maturities of long-term debt	20,446	19,326
Deferred revenue	198,128	187,654
Current portion of cash flow hedging derivatives	18,015	24,157
Other current liabilities	33,546	7,966
Total current liabilities	689,008	797,469
Long-term debt, net	4,314,105	3,625,949
Deferred tax liabilities	631,969	512,306
Deferred rents	95,950	80,487
Other long-term liabilities	82,916	81,664
Total liabilities	5,813,948	5,097,875
COMMITMENTS AND CONTINGENCIES (See Note 11)		
STOCKHOLDERS EQUITY:		
	0	0

Preferred stock, par value $0.0001 per share, 100,000,000 shares authorized; no shares of preferred stock issued and outstanding at September 30, 2010 and December 31, 2009		
Common stock, par value $0.0001 per share, 1,000,000,000 shares authorized, 354,362,405 and 352,711,263 shares issued and outstanding at September 30, 2010 and December 31, 2009, respectively	35	35
Additional paid-in capital	1,673,934	1,634,754
Retained earnings	844,557	664,693
Accumulated other comprehensive loss	(10,275)	(11,340)
Less treasury stock, at cost, 209,633 and no treasury shares at September 30, 2010 and December 31, 2009, respectively	(1,586)	0
Total stockholders equity	2,506,665	2,288,142
Total liabilities and stockholders equity	$ 8,320,613	$ 7,386,017

(1) As a result of the adoption of certain provisions of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 810 (Topic 810, *Consolidation*), the Company is required to separately disclose on its condensed consolidated balance sheets the assets of its consolidated variable interest entity (VIE) that can be used only to settle obligations of the VIE and liabilities for which creditors do not have recourse to the Company.

As of September 30, 2010, $866.4 million related to the consolidated VIE were included in the Company s total assets, which consist of $22.0 million of cash and cash equivalents, $0.1 million of accounts receivable, net, $8.1 million of prepaid expenses, $0.6 million of other current assets, $520.1 million of property and equipment, net, $0.3 million of restricted cash and investments, $293.6 million of FCC licenses and $21.6 million of other assets.

As of December 31, 2009, $807.2 million related to the consolidated VIE were included in the Company s total assets, which consist of $16.8 million of cash and cash equivalents, $0.1 million of accounts receivable, net, $7.6 million of prepaid expenses, $0.5 million of other current assets, $463.7 million of property and equipment, net, $0.3 million of restricted cash and investments, $293.6 million of FCC licenses and $24.6 million of other assets.

As of September 30, 2010, $45.9 million related to the consolidated VIE were included in the Company s total liabilities, which consist of $7.0 million of accounts payable and accrued expenses, $0.3 million of current maturities of long-term debt, $14.5 million of long-term debt, net, $14.3 million of deferred rents, and $9.8 million of other long-term liabilities.

As of December 31, 2009, $33.7 million related to the consolidated VIE were included in the Company s total liabilities, which consist of $9.4 million of accounts payable and accrued expenses, $0.1 million of current maturities of long-term debt, $4.4 million of long-term debt, net, $10.9 million of deferred rents, and $8.9 million of other long-term liabilities.

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

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MetroPCS Communications, Inc. and Subsidiaries

Condensed Consolidated Statements of Income and Comprehensive Income

(in thousands, except share and per share information)

(Unaudited)

	For the three months ended September 30, 2010	For the three months ended September 30, 2009	For the nine months ended September 30, 2010	For the nine months ended September 30, 2009
REVENUES:				
Service revenues	$ 942,251	$ 812,340	$ 2,717,671	$ 2,305,888
Equipment revenues	78,538	83,253	286,156	244,646
Total revenues	1,020,789	895,593	3,003,827	2,550,534
OPERATING EXPENSES:				
Cost of service (excluding depreciation and amortization expense of $99,706, $88,232, $290,532 and $240,803, shown separately below)	313,688	298,288	906,508	812,596
Cost of equipment	256,265	199,092	805,357	651,511
Selling, general and administrative expenses (excluding depreciation and amortization expense of $14,098, $10,745, $40,374 and $31,294, shown separately below)	147,431	138,460	465,940	417,191
Depreciation and amortization	113,804	98,977	330,906	272,097
(Gain) loss on disposal of assets	(18,333)	2,569	(16,461)	(8,328)
Total operating expenses	812,855	737,386	2,492,250	2,145,067
Income from operations	207,934	158,207	511,577	405,467
OTHER EXPENSE (INCOME):				
Interest expense	65,726	70,391	198,710	199,358
Interest income	(497)	(855)	(1,353)	(2,120)
Other expense (income), net	462	397	1,396	1,407
Loss on extinguishment of debt	15,590	0	15,590	0
Impairment loss on investment securities	0	374	0	1,827
Total other expense	81,281	70,307	214,343	200,472
Income before provision for income taxes	126,653	87,900	297,234	204,995
Provision for income taxes	(49,366)	(14,350)	(117,370)	(61,276)
Net income	$ 77,287	$ 73,550	$ 179,864	$ 143,719
Other comprehensive income:				
Unrealized gains on available-for-sale securities, net of tax	137	776	261	665
Unrealized losses on cash flow hedging derivatives, net of tax	(3,355)	(8,570)	(13,573)	(12,197)
Reclassification adjustment for gains on available-for-sale securities included in net income, net of tax	(74)	(147)	(207)	(167)

Reclassification adjustment for losses on cash flow hedging derivatives included in net income, net of tax		2,780		8,939		14,584		23,777
Total other comprehensive income		(512)		998		1,065		12,078
Comprehensive income	$	76,775	$	74,548	$	180,929	$	155,797
Net income per common share: (See Note 10)								
Basic	$	0.22	$	0.21	$	0.51	$	0.41
Diluted	$	0.22	$	0.21	$	0.50	$	0.40
Weighted average shares:								
Basic		353,954,532		352,182,656		353,342,910		351,732,660
Diluted		356,423,216		355,359,436		355,593,779		356,511,560

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

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MetroPCS Communications, Inc. and Subsidiaries

Condensed Consolidated Statements of Cash Flows

(in thousands)

(Unaudited)

	For the nine months ended September 30, 2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 179,864	$ 143,719
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	330,906	272,097
Provision for uncollectible accounts receivable	38	191
Deferred rent expense	15,648	17,765
Cost of abandoned cell sites	1,450	6,148
Stock-based compensation expense	35,103	35,767
Non-cash interest expense	10,049	8,176
Gain on disposal of assets	(16,461)	(8,328)
Loss on extinguishment of debt	15,590	0
Gain on sale of investments	(340)	(272)
Impairment loss on investment securities	0	1,827
Accretion of asset retirement obligations	2,772	3,716
Other non-cash expense	1,455	1,168
Deferred income taxes	114,105	85,070
Changes in assets and liabilities:		
Inventories, net	21,199	67,831
Accounts receivable, net	4,761	(13,305)
Prepaid expenses	(11,885)	(22,123)
Deferred charges	(4,263)	11,121
Other assets	15,730	9,565
Accounts payable and accrued expenses	(50,921)	171,442
Deferred revenue	10,474	12,438
Other liabilities	4,117	(24,599)
Net cash provided by operating activities	679,391	779,414
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(547,943)	(636,522)
Change in prepaid purchases of property and equipment	60,348	(10,211)
Proceeds from sale of property and equipment	7,643	4,836
Purchase of investments	(1,174,773)	(374,227)
Proceeds from maturity of investments	387,500	150,000
Change in restricted cash and investments	1,262	(13,112)
Acquisitions of FCC licenses	(3,686)	(16,567)
Proceeds from exchange of FCC licenses	0	949
Net cash used in investing activities	(1,269,649)	(894,854)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Change in book overdraft	(78,765)	(100,368)

Proceeds from senior note offerings		992,770		492,250
Debt issuance costs		(24,250)		(11,925)
Repayment of debt		(12,000)		(12,000)
Retirement of 9 1/4% Senior Notes		(327,529)		0
Payments on capital lease obligations		(2,923)		(2,680)
Purchase of treasury stock		(1,586)		0
Proceeds from exercise of stock options		4,944		7,793
Net cash provided by financing activities		550,661		373,070
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		(39,597)		257,630
CASH AND CASH EQUIVALENTS, beginning of period		929,381		697,948
CASH AND CASH EQUIVALENTS, end of period	$	889,784	$	955,578

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

MetroPCS Communications, Inc. and Subsidiaries

Notes to Condensed Consolidated Interim Financial Statements

(Unaudited)

1. Basis of Presentation:

The accompanying unaudited condensed consolidated interim financial statements include the balances and results of operations of MetroPCS Communications, Inc. (MetroPCS) and its consolidated subsidiaries (collectively, the Company). MetroPCS indirectly owns, through its wholly-owned subsidiaries, 85% of the limited liability company member interest in Royal Street Communications, LLC (Royal Street Communications). The condensed consolidated financial statements include the balances and results of operations of MetroPCS and its wholly-owned subsidiaries as well as the balances and results of operations of Royal Street Communications and its wholly-owned subsidiaries (collectively, Royal Street). The Company consolidates its interest in Royal Street in accordance with ASC 810 as a VIE. The Company examined specific criteria and considered factors such as design of Royal Street, risk and reward sharing, voting rights, and involvement in significant capital and operating decisions in reaching its conclusion to consolidate Royal Street. All intercompany accounts and transactions between MetroPCS and its wholly-owned subsidiaries and Royal Street have been eliminated in the consolidated financial statements. The redeemable ownership interest in Royal Street is included in other current liabilities as of September 30, 2010 due to the controlling member exercising its right to put to MetroPCS Wireless, Inc. (Wireless) its entire membership interest in Royal Street Communications. The purchase of the membership interest in Royal Street Communications is conditioned on receipt of Federal Communications Commission (FCC) consent, which was granted on October 8, 2010, but has not yet become final and is expected to close on or after December 22, 2010. The redeemable ownership interest in Royal Street is included in other long-term liabilities as of December 31, 2009.

The condensed consolidated balance sheets as of September 30, 2010 and December 31, 2009, the condensed consolidated statements of income and comprehensive income and cash flows for the periods ended September 30, 2010 and 2009, and the related footnotes are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP).

The unaudited condensed consolidated financial statements included herein reflect all adjustments (consisting of normal, recurring adjustments) which are, in the opinion of management, necessary to state fairly the results for the interim periods presented. Certain amounts reported in previous periods have been reclassified to conform to the current period presentation. The results of operations for the interim periods presented are not necessarily indicative of the operating results to be expected for any subsequent interim period or for the fiscal year.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The Company has thirteen operating segments based on geographic region within the United States: Atlanta, Boston, Dallas/Fort Worth, Detroit, Las Vegas, Los Angeles, Miami, New York, Orlando/Jacksonville, Philadelphia, Sacramento, San Francisco and Tampa/Sarasota. Effective January 1, 2010, in accordance with the provisions of ASC 280 (Topic 280, *Segment Reporting*), the Company aggregates its thirteen operating segments into one reportable segment.

Federal Universal Service Fund (FUSF), E-911 and various other fees are assessed by various governmental authorities in connection with the services that the Company provides to its customers. Beginning in January 2010, the Company introduced a new family of service plans, which include all applicable taxes and regulatory fees (tax inclusive plans). The Company reports fees for the tax inclusive plans in cost of service on the accompanying condensed consolidated statements of income and comprehensive income. When the Company separately assesses these fees on its customers for those service plans that do not include taxes or regulatory fees, the Company reports these regulatory fees on a gross basis in service revenues and cost of service on the accompanying condensed consolidated statements of income and comprehensive income. For the three months ended September 30, 2010 and 2009, the Company recorded $18.5 million and $47.5 million, respectively, of FUSF, E-911 and other fees on a gross basis. For the nine months ended September 30, 2010 and 2009, the Company recorded $63.1 million and $124.1 million, respectively, of FUSF, E-911 and other fees on a gross basis. Sales, use and excise taxes for all service plans are reported on a net basis in selling, general and administrative expenses on the accompanying condensed consolidated statements of income and comprehensive income.

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MetroPCS Communications, Inc. and Subsidiaries

Notes to Condensed Consolidated Interim Financial Statements

(Unaudited)

2. Share-based Payments:

In accordance with ASC 718 (Topic 718, *Compensation Stock Compensation*), the Company recognizes stock-based compensation expense in an amount equal to the fair value of share-based payments, which includes stock options granted and restricted stock awards to employees. The Company records stock-based compensation expense in cost of service and selling, general and administrative expenses. Stock-based compensation expense was $11.8 million and $12.4 million for the three months ended September 30, 2010 and 2009, respectively. Cost of service for the three months ended September 30, 2010 and 2009 includes $0.9 million and $1.1 million, respectively, of stock-based compensation. For the three months ended September 30, 2010 and 2009, selling, general and administrative expenses include $10.9 million and $11.3 million, respectively, of stock-based compensation. Stock-based compensation expense was $35.1 million and $35.8 million for the nine months ended September 30, 2010 and 2009, respectively. Cost of service for the nine months ended September 30, 2010 and 2009 includes $2.7 million and $3.1 million, respectively, of stock-based compensation. For the nine months ended September 30, 2010 and 2009, selling, general and administrative expenses include $32.4 million and $32.7 million, respectively, of stock-based compensation.

Restricted Stock Awards

Restricted stock awards are share awards that entitle the holder to receive shares of the Company s common stock which become fully tradable upon vesting. During the three and nine months ended September 30, 2010, pursuant to the Amended and Restated MetroPCS Communications, Inc. 2004 Equity Incentive Compensation Plan, the Company issued 65,000 and 1,916,674 restricted stock awards, respectively, to certain employees and, in 2010 to the directors of MetroPCS. During the three and nine months ended September 30, 2009, pursuant to the Amended and Restated MetroPCS Communications, Inc. 2004 Equity Incentive Compensation Plan, the Company issued 25,600 and 1,380,710 restricted stock awards, respectively, to certain employees. The restricted stock awards granted to employees generally vest on a four-year vesting schedule with 25% vesting on the first anniversary date of the award and the remainder pro-rata on a monthly or quarterly basis thereafter. The Company determined the grant-date fair value of the restricted stock awards granted during the three months ended September 30, 2010 and 2009 to be approximately $0.6 million and $0.2 million, respectively, based on the closing price of the Company s common stock on the New York Stock Exchange on the grant dates. The Company determined the grant-date fair value of the restricted stock awards granted during the nine months ended September 30, 2010 and 2009 to be approximately $12.4 million and $19.8 million, respectively, based on the closing price of the Company s common stock on the New York Stock Exchange on the grant dates. The estimated compensation cost of the restricted stock awards, which is equal to the fair value of the awards on the date of grant, will be recognized on a ratable basis over the four-year vesting period.

Vesting in the restricted stock awards triggers an income tax obligation for the employee that is required to be remitted to the relevant tax authorities. To effect the tax withholding, the Company has agreed to repurchase a sufficient number of common shares from the employee to cover the income tax obligation. The stock repurchase is being accounted for as treasury stock. During the three and nine months ended September 30, 2010, the Company repurchased 82,778 and 209,633 shares of stock, respectively, from certain employees to settle the income tax obligation associated with vesting in restricted stock awards.

3. Short-term Investments:

The Company s short-term investments consist of securities classified as available-for-sale, which are stated at fair value. The securities include U.S. Treasury securities with an original maturity of over 90 days. Unrealized gains, net of related income taxes, for available-for-sale securities are reported in accumulated other comprehensive loss, a component of stockholders equity, until realized. The estimated fair values of investments are based on quoted market prices as of the end of the reporting period.

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MetroPCS Communications, Inc. and Subsidiaries

Notes to Condensed Consolidated Interim Financial Statements

(Unaudited)

Short-term investments, with an original maturity of over 90 days, consisted of the following (in thousands):

	As of September 30, 2010			
	Amortized Cost	Unrealized Gain in Accumulated OCI	Unrealized Loss in Accumulated OCI	Aggregate Fair Value
Equity Securities	$ 7	$ 0	$ (6)	$ 1
U.S. Treasury Securities	1,012,401	230	0	1,012,631
Total short-term investments	$ 1,012,408	$ 230	$ (6)	$ 1,012,632

	As of December 31, 2009			
	Amortized Cost	Unrealized Gain in Accumulated OCI	Unrealized Loss in Accumulated OCI	Aggregate Fair Value
Equity Securities	$ 7	$ 0	$ (5)	$ 2
U.S. Treasury Securities	224,790	140	0	224,930
Total short-term investments	$ 224,797	$ 140	$ (5)	$ 224,932

The cost and aggregate fair values of short-term investments by contractual maturity at September 30, 2010 were as follows (in thousands):

	Amortized Cost	Aggregate Fair Value
Less than one year	$ 1,012,401	$ 1,012,631

4. Derivative Instruments and Hedging Activities:

In March 2009, Wireless entered into three separate two-year interest rate protection agreements to manage the Company s interest rate risk exposure under Wireless senior secured credit facility, as amended, (the Senior Secured Credit Facility), pursuant to which Wireless may borrow up to approximately $1.7 billion. These agreements were effective on February 1, 2010 and cover a notional amount of $1.0 billion and effectively convert this portion of Wireless variable rate debt to fixed rate debt at a weighted average annual rate of 5.246%. These agreements expire on February 1, 2012.

Interest rate protection agreements are entered into to manage interest rate risk associated with Wireless variable-rate borrowings under the Senior Secured Credit Facility. The interest rate protection agreements have been designated as cash flow hedges. If a derivative is designated as a cash flow hedge and the hedging relationship qualifies for hedge accounting under the provisions of ASC 815 (Topic 815, *Derivatives and Hedging*), the effective portion of the change in fair value of the derivative is recorded in accumulated other comprehensive income (loss) and reclassified to interest expense in the period in which the hedged transaction affects earnings. The ineffective portion of the change in fair value of a derivative qualifying for hedge accounting is recognized in earnings in the period of the change. For the three and nine months ended September 30, 2010, the change in fair value did not result in ineffectiveness.

At the inception of the cash flow hedges and quarterly thereafter, the Company performs an assessment to determine whether changes in the fair values or cash flows of the derivatives are deemed highly effective in offsetting changes in the fair values or cash flows of the hedged transaction. If at any time subsequent to the inception of the cash flow hedges, the assessment indicates that the derivative is no longer highly effective as a hedge, the Company will discontinue hedge accounting and recognize all subsequent derivative gains and losses in results of operations. The Company estimates that approximately $18.0 million of net losses that are reported in accumulated other comprehensive loss at September 30, 2010 are expected to be reclassified into earnings within the next 12 months.

MetroPCS Communications, Inc. and Subsidiaries

Notes to Condensed Consolidated Interim Financial Statements

(Unaudited)

Cross-default Provisions

Wireless interest rate protection agreements contain cross-default provisions to its Senior Secured Credit Facility. Wireless Senior Secured Credit Facility allows interest rate protection agreements to become secured if the counterparty to the agreement is a current lender under the Senior Secured Credit Facility. If Wireless were to default on the Senior Secured Credit Facility, it would trigger these provisions, and the counterparties to the interest rate protection agreements could request immediate payment on interest rate protection agreements in net liability positions, similar to their existing rights as a lender. There are no collateral requirements in the interest rate protection agreements. The aggregate fair value of interest rate protection agreements with cross-default provisions that are in a net liability position on September 30, 2010 is $23.2 million.

Fair Values of Derivative Instruments

(in thousands)	Liability Derivatives			
	As of September 30, 2010		As of December 31, 2009	
	Balance Sheet Location	**Fair Value**	**Balance Sheet Location**	**Fair Value**
Derivatives designated as hedging instruments under ASC 815				
Interest rate protection agreements	Current portion of cash flow hedging derivatives	$ (18,015)	Current portion of cash flow hedging derivatives	$ (24,157)
Interest rate protection agreements	Other long-term liabilities	(5,186)	Other long-term liabilities	(702)
Total derivatives designated as hedging instruments under ASC 815		$ (23,201)		$ (24,859)

The Effect of Derivative Instruments on the Condensed Consolidated Statement of Income and Comprehensive Income

For the Three Months Ended September 30,

Derivatives in ASC 815 Cash Flow Hedging Relationships	**Amount of Gain (Loss) Recognized in OCI on Derivative (Effective Portion) 2010**	**2009**	**Location of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)**	**Amount of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) 2010**	**2009**
Interest rate protection agreements	$ (5,591)	$ (13,954)	Interest expense	$ (4,663)	$ (14,581)

The Effect of Derivative Instruments on the Condensed Consolidated Statement of Income and Comprehensive Income
For the Nine Months Ended September 30,

Derivatives in ASC 815 Cash Flow Hedging Relationships	Amount of Gain (Loss) Recognized in OCI on Derivative (Effective Portion) 2010	2009	Location of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) 2010	2009
Interest rate protection agreements	$ (22,246)	$ (19,915)	Interest expense	$ (23,904)	$ (38,862)

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MetroPCS Communications, Inc. and Subsidiaries

Notes to Condensed Consolidated Interim Financial Statements

(Unaudited)

5. Property and Equipment:

Property and equipment, net, consisted of the following (in thousands):

	September 30, 2010	December 31, 2009
Construction-in-progress	$ 383,328	$ 283,365
Network infrastructure (1)	4,074,217	3,756,300
Office equipment and software	197,023	158,732
Leasehold improvements	57,295	55,631
Furniture and fixtures	15,887	14,033
Vehicles	401	401
	4,728,151	4,268,462
Accumulated depreciation and amortization (1)	(1,304,618)	(1,016,249)
Property and equipment, net	$ 3,423,533	$ 3,252,213

(1) As of September 30, 2010 and December 31, 2009, approximately $203.9 million and $183.4 million, respectively, of network infrastructure assets were held by the Company under capital lease arrangements. Accumulated amortization relating to these assets totaled $20.1 million and $9.8 million as of September 30, 2010 and December 31, 2009, respectively.

6. FCC Licenses:

The Company operates wireless broadband mobile networks under licenses granted by the FCC for a particular geographic area on spectrum allocated by the FCC for terrestrial wireless broadband services. The Company holds personal communications services (PCS) licenses granted or acquired on various dates, and in November 2006, the Company acquired a number of advanced wireless services (AWS) licenses which can be used to provide services comparable to the wireless broadband mobile services provided by the Company, and other advanced wireless services. In June 2008, the Company acquired a 700 MHz license that also can be used to provide similar services. The PCS licenses previously included, and the AWS licenses currently include, the obligation and resulting costs to relocate existing fixed microwave users of the Company s licensed spectrum if the Company s use of its spectrum interferes with their systems and/or reimburse other carriers (according to FCC rules) that relocated prior users if the relocation benefits the Company s system. Accordingly, the Company incurred costs related to microwave relocation in constructing its PCS and AWS networks.

FCC Licenses on the accompanying condensed consolidated balance sheets include the Company s microwave relocation costs. The licenses and microwave relocation costs are recorded at cost. Although PCS, AWS and 700 MHz licenses are issued with a stated term, ten years in the case of the PCS licenses, fifteen years in the case of the AWS licenses and approximately ten years for 700 MHz licenses, the renewal of PCS, AWS and 700 MHz licenses is generally a routine matter without substantial cost and the Company has determined that no legal, regulatory, contractual, competitive, economic, or other factors currently exist that limit the useful life of its PCS, AWS and 700 MHz licenses. As such, under the provisions of ASC 350 (Topic 350, Intangibles-Goodwill and Other), the Company does not amortize PCS, AWS and 700 MHz licenses and microwave relocation costs (collectively, its indefinite-lived intangible assets) as they are considered to have indefinite lives and together represent the cost of the Company s spectrum. The carrying value of FCC licenses and microwave relocation costs was approximately \$2.5 billion as of September 30, 2010.

In accordance with the requirements of ASC 350, the Company performs its annual indefinite-lived intangible assets impairment test as of each September 30th or more frequently if events or changes in circumstances indicate that the carrying value of the indefinite-lived intangible assets might be impaired. The impairment test consists of a comparison of the estimated fair value with the carrying value. The Company estimates the fair value of its indefinite-lived intangible assets using a direct value methodology in accordance with ASC 805 (Topic 805, Business Combinations). The direct value approach determines fair value using a discounted cash flow model. Cash flow projections and assumptions, although subject to a degree of uncertainty, are based on a combination of the Company s historical performance and trends, its business plans and management s estimate of future performance, giving consideration to existing and anticipated competitive economic conditions. Other assumptions include the weighted average cost of capital and long-term rate of growth for the business. The Company believes

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that its estimates are consistent with assumptions that marketplace participants would use to estimate fair value. The Company corroborates its determination of fair value of the indefinite-lived intangible assets, using the discounted cash flow approach described above, with other market-based valuation metrics. An impairment loss would be recorded as a reduction in the carrying value of the related indefinite-lived intangible assets and charged to results of operations.

For the purpose of performing the annual impairment test as of September 30, 2010, the indefinite-lived intangible assets were aggregated and combined into a single unit of accounting. The Company believes that utilizing its indefinite-lived intangible assets as a group represents the highest and best use of the assets, and the value of the indefinite-lived intangible assets would not be significantly impacted by a sale of one or a portion of the indefinite-lived intangible assets, among other factors. As of September 30, 2010, no impairment was recognized as the fair value of the indefinite-lived intangible assets was in excess of the carrying value. Although the Company does not expect its estimates or assumptions to change significantly in the future, the use of different estimates or assumptions within the discounted cash flow model when determining the fair value of the indefinite-lived intangible assets or using a methodology other than a discounted cash flow model could result in different values for the indefinite-lived intangible assets and may affect any related impairment charge. The most significant assumptions within the Company s discounted cash flow model are the discount rate, the projected growth rate and management s future business plans. A one percent decline in annual revenue growth rates, a one percent decline in annual net cash flows or a one percent increase in discount rate would not result in an impairment related to the combined single unit of accounting as of September 30, 2010.

Furthermore, if any of the indefinite-lived intangible assets are subsequently determined to have a finite useful life, such assets would be tested for impairment in accordance with ASC 360 (Topic 360, Property, Plant, and Equipment), and the intangible assets would then be amortized prospectively over the estimated remaining useful life. There also have been no subsequent indicators of impairment and accordingly, no subsequent interim impairment tests were performed.

Other Spectrum Acquisitions

During the three and nine months ended September 30, 2009, the Company closed on various agreements for the acquisition and exchange of spectrum in the net aggregate amount of approximately $4.3 million and $14.6 million, respectively, in cash.

On July 27, 2010, the Company entered into a like-kind spectrum exchange agreement for licenses in certain metropolitan areas with another service provider (Service Provider). Consummation of this spectrum exchange agreement is subject to customary closing conditions, including final FCC consent. The Company will acquire 10 MHz of AWS spectrum in Orlando in exchange for 10 MHz of PCS spectrum in Ft. Pierce-Vero Beach-Stuart, Florida, 20 MHz of partitioned AWS spectrum in the Salt Lake City and Portland cellular marketing areas and total cash consideration of $3.0 million.

On August 23, 2010, the Company closed on a like-kind spectrum exchange agreement covering licenses in certain markets with the Service Provider. The Service Provider acquired 10 MHz of AWS spectrum in Dallas/Fort Worth, Texas; Shreveport-Bossier City, Louisiana; and an additional 10 MHz of AWS spectrum in certain other Washington markets, as well as an additional 10 MHz of PCS spectrum in Sacramento, California. The Company acquired 10 MHz of AWS spectrum in Dallas/Fort Worth, Texas and Shreveport-Bossier City, Louisiana; and an additional 10 MHz of AWS spectrum in Santa Barbara, California, and Tampa-St. Petersburg-Clearwater, Florida. The exchange of spectrum resulted in a gain on disposal of assets in the amount of $19.2 million.

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7. Accounts Payable and Accrued Expenses:

Accounts payable and accrued expenses consisted of the following (in thousands):

	September 30, 2010	December 31, 2009
Accounts payable	$ 92,640	$ 164,246
Book overdraft	5,673	84,438
Accrued accounts payable	110,967	131,644
Accrued liabilities	22,784	26,009
Payroll and employee benefits	38,000	30,923
Accrued interest	69,689	42,098
Taxes, other than income	71,173	71,513
Income taxes	7,947	7,495
Accounts payable and accrued expenses	$ 418,873	$ 558,366

8. Long-term Debt:

Long-term debt consisted of the following (in thousands):

	September 30, 2010	December 31, 2009
9 1/4% Senior Notes	$ 1,636,950	$ 1,950,000
7 7/8% Senior Notes	1,000,000	0
Senior Secured Credit Facility	1,536,000	1,548,000
Capital Lease Obligations	202,115	181,194
Total long-term debt	4,375,065	3,679,194
Add: unamortized discount on debt	(40,514)	(33,919)
Total debt	4,334,551	3,645,275
Less: current maturities	(20,446)	(19,326)
Total long-term debt	$ 4,314,105	$ 3,625,949

9 1/4% Senior Notes due 2014

On November 3, 2006, Wireless completed the sale of $1.0 billion of principal amount of 9 1/4% Senior Notes due 2014 (the Initial Notes). On June 6, 2007, Wireless completed the sale of an additional $400.0 million of 9 1/4% Senior Notes due 2014 (the Additional Notes) under the existing indenture governing the Initial Notes at a price equal to 105.875% of the principal amount of such Additional Notes. On January 20, 2009, Wireless completed the sale of an additional $550.0 million of 9 $^1/_4$% Senior Notes due 2014 (the New 9$^1/_4$% Senior Notes and, together with the Initial Notes and Additional Notes, the 9$^1/_4$% Senior Notes) under a new indenture substantially similar to the indenture governing the Initial Notes at a price equal to 89.50% of the principal amount of such New 9 $^1/_4$% Senior Notes resulting in net proceeds of approximately $480.3 million.

The 9 $^1/_4$% Senior Notes are unsecured obligations and are guaranteed by MetroPCS, MetroPCS, Inc., and all of Wireless direct and indirect wholly-owned subsidiaries, but are not guaranteed by Royal Street and MetroPCS Finance, Inc. (MetroPCS Finance). Interest is payable on the 9 $^1/_4$% Senior Notes on May 1 and November 1 of each year. Wireless may, at its option, redeem some or all of the 9 $^1/_4$% Senior Notes at any time on or after November 1, 2010 for the redemption prices set forth in the indentures governing the 9 $^1/_4$% Senior Notes. Wireless may also, at its option, prior to November 1, 2010, redeem some or all of the 9 $^1/_4$% Senior Notes at the make whole price set forth in the indentures governing the 9 $^1/_4$% Senior Notes.

On September 21, 2010, Wireless completed a cash tender offer to purchase $313.1 million of outstanding aggregate principal amount of the initial and additional 9 $^1/_4$% Senior Notes at a price equal to 104.625% (the Tender Offer) for total cash consideration of $327.5 million. The Tender Offer resulted in a loss on extinguishment of debt in the amount of $15.6 million.

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7 $^{7}/8$% Senior Notes due 2018

On September 21, 2010, Wireless completed the sale of $1.0 billion of principal amount of 7 $^{7}/8$% Senior Notes due 2018 (7 $^{7}/8$% Senior Notes). The terms of the 7 $^{7}/8$% Senior Notes are governed by the indenture and the first supplemental indenture, dated September 21, 2010, among Wireless, the guarantors party thereto and the trustee. The net proceeds of the sale of the 7 $^{7}/8$% Senior Notes were $974.9 million after underwriter fees, discounts and other debt issuance costs of $25.1 million.

Senior Secured Credit Facility

Wireless entered into the Senior Secured Credit Facility, as amended, which consists of a $1.6 billion term loan facility and a $100.0 million revolving credit facility. On November 3, 2006, Wireless borrowed $1.6 billion under the Senior Secured 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 in November 2013 and the revolving credit facility will mature in November 2011.

On July 16, 2010, Wireless entered into an Amendment and Restatement and Resignation and Appointment Agreement (the Amendment) which amends and restates the Senior Secured Credit Facility. The Amendment amends the Senior Secured Credit Facility to, among other things, extend the maturity of $1.0 billion of existing term loans under the Senior Secured Credit Facility to November 2016, increase the interest rate to LIBOR plus 3.50% on the extended portion only and reduce the revolving credit facility from $100.0 million to $67.5 million. The remaining $536.0 million will mature in 2013 and the interest rate continues to be LIBOR plus 2.25%. This modification did not result in a loss on extinguishment of debt.

The facilities under the Senior Secured Credit Facility are guaranteed by MetroPCS, MetroPCS, Inc. and each of Wireless direct and indirect present and future wholly-owned domestic subsidiaries. The facilities are not guaranteed by Royal Street and MetroPCS Finance, but Wireless pledged the promissory note that Royal Street has given it in connection with amounts borrowed by Royal Street from Wireless and the limited liability company member interest held by Wireless in Royal Street Communications. The Senior Secured Credit Facility contains customary events of default, including cross-defaults. The obligations are also secured by the capital stock of Wireless as well as substantially all of Wireless present and future assets and the capital stock and substantially all of the assets of each of its direct and indirect present and future wholly-owned subsidiaries (except as prohibited by law and certain permitted exceptions), but excludes Royal Street.

Under the Senior Secured Credit Facility, Wireless is 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. Wireless 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.

The interest rate on the outstanding debt under the Senior Secured Credit Facility is variable. The rate as of September 30, 2010 was 4.593%, which includes the impact of Wireless interest rate protection agreements (See Note 4).

Capital Lease Obligations

The Company has entered into various non-cancelable capital lease agreements, with varying expiration terms through 2025. Assets and future obligations related to capital leases are included in the accompanying condensed consolidated balance sheets in property and equipment and long-term debt, respectively. Depreciation of assets held under capital leases is included in depreciation and amortization expense. As of September 30, 2010, the Company had approximately $202.1 million of capital lease obligations, with $4.4 million and $197.7 million recorded in current maturities of long-term debt and long-term debt, respectively.

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9. Fair Value Measurements:

The Company has adopted the provisions of ASC 820 (Topic 820, *Fair Value Measurements and Disclosures*), for financial assets and liabilities. ASC 820 became effective for financial assets and liabilities on January 1, 2008. The Company adopted the provisions of ASC 820 for non-financial assets and liabilities upon its effectiveness on January 1, 2009. ASC 820 defines fair value, thereby eliminating inconsistencies in guidance found in various prior accounting pronouncements, and increases disclosures surrounding fair value calculations.

ASC 820 establishes a three-tiered fair value hierarchy that prioritizes inputs to valuation techniques used in fair value calculations. The three levels of inputs are defined as follows:

Level 1 **-** Unadjusted quoted market prices for identical assets or liabilities in active markets that the Company has the ability to access.

Level 2 **-** Quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; or valuations based on models where the significant inputs are observable (e.g., interest rates, yield curves, prepayment speeds, default rates, loss severities, etc.) or can be corroborated by observable market data.

Level 3 **-** Valuations based on models where significant inputs are not observable. The unobservable inputs reflect the Company s own assumptions about the assumptions that market participants would use.

ASC 820 requires the Company to maximize the use of observable inputs and minimize the use of unobservable inputs. If a financial instrument uses inputs that fall in different levels of the hierarchy, the instrument will be categorized based upon the lowest level of input that is significant to the fair value calculation. The Company s financial assets and liabilities measured at fair value on a recurring basis include cash and cash equivalents, short and long-term investments securities and derivative financial instruments.

Included in the Company s cash and cash equivalents are cash on hand, cash in bank accounts, investments in money market funds consisting of U.S. Treasury securities with an original maturity of 90 days or less. Included in the Company s short-term investments are securities classified as available-for-sale, which are stated at fair value. The securities include U.S. Treasury securities with an original maturity of over 90 days. Fair value is determined based on observable quotes from banks and unadjusted quoted market prices from identical securities in an active market at the reporting date. Significant inputs to the valuation are observable in the active markets and are classified as Level 1 in the hierarchy.

Included in the Company s long-term investments securities are certain auction rate securities, some of which are secured by collateralized debt obligations with a portion of the underlying collateral being mortgage securities or related to mortgage securities. Due to the lack of availability of observable market quotes on the Company s investment portfolio of auction rate securities, the fair value was estimated based on valuation models that rely exclusively on unobservable Level 3 inputs including those that are based on expected cash flow streams and collateral values, including assessments of counterparty credit quality, default risk underlying the security, discount rates and overall capital market liquidity. The valuation of the Company s investment portfolio is subject to uncertainties that are difficult to predict. Factors that may impact the Company s valuation include changes to credit ratings of the securities as well as the underlying assets supporting those securities, rates of default of the underlying assets, underlying collateral values, discount rates, counterparty risk and ongoing strength and quality of market credit and liquidity. Significant inputs to the investments valuation are unobservable in the active markets and are classified as Level 3 in the hierarchy.

Included in the Company s derivative financial instruments are interest rate swaps. Derivative financial instruments are valued in the market using discounted cash flow techniques. These techniques incorporate Level 1 and Level 2 inputs such as interest rates. These market inputs are utilized in the discounted cash flow calculation considering the instrument s term, notional amount, discount rate and credit risk. Significant inputs to the derivative valuation for interest rate swaps are observable in the active markets and are classified as Level 2 in the hierarchy.

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The following table summarizes assets and liabilities measured at fair value on a recurring basis at September 30, 2010, as required by ASC 820 (in thousands):

	Fair Value Measurements			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets				
Cash and cash equivalents	$ 889,784	$ 0	$ 0	$ 889,784
Short-term investments	1,012,632	0	0	1,012,632
Restricted cash and investments	13,632	0	0	13,632
Long-term investments	0	0	6,319	6,319
Total assets measured at fair value	$ 1,916,048	$ 0	$ 6,319	$ 1,922,367
Liabilities				
Derivative liabilities	$ 0	$ 23,201	$ 0	$ 23,201
Total liabilities measured at fair value	$ 0	$ 23,201	$ 0	$ 23,201

The following table summarizes assets and liabilities measured at fair value on a recurring basis at December 31, 2009, as required by ASC 820 (in thousands):

	Fair Value Measurements			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets				
Cash and cash equivalents	$ 929,381	$ 0	$ 0	$ 929,381
Short-term investments	224,932	0	0	224,932
Restricted cash and investments	15,438	0	0	15,438
Long-term investments	0	0	6,319	6,319
Total assets measured at fair value	$ 1,169,751	$ 0	$ 6,319	$ 1,176,070
Liabilities				
Derivative liabilities	$ 0	$ 24,859	$ 0	$ 24,859
Total liabilities measured at fair value	$ 0	$ 24,859	$ 0	$ 24,859

The following table summarizes the changes in fair value of the Company s derivative liabilities included in Level 2 assets, as required by ASC 820 (in thousands):

Fair Value Measurements of Derivative Liabilities Using Level 2 Inputs	Derivative Liabilities Three Months Ended September 30, 2010	2009
Beginning balance	$ 22,273	$ 36,643
Total losses (realized or unrealized):		
Included in earnings (1)	4,663	14,581
Included in accumulated other comprehensive loss	(5,591)	(13,954)
Transfers in and/or out of Level 2	0	0
Purchases, sales, issuances and settlements	0	0
Ending balance	$ 23,201	$ 36,016

(1) Losses included in earnings that are attributable to the reclassification of the effective portion of those derivative liabilities still held at the reporting date as reported in interest expense in the condensed consolidated statements of income and comprehensive income.

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Fair Value Measurements of Derivative Liabilities Using Level 2 Inputs	**Derivative Liabilities Nine Months Ended September 30, 2010**	**2009**
Beginning balance	$ 24,859	$ 54,963
Total losses (realized or unrealized):		
Included in earnings (2)	23,904	38,862
Included in accumulated other comprehensive loss	(22,246)	(19,915)
Transfers in and/or out of Level 2	0	0
Purchases, sales, issuances and settlements	0	0
Ending balance	$ 23,201	$ 36,016

(2) Losses included in earnings that are attributable to the reclassification of the effective portion of those derivative liabilities still held at the reporting date as reported in interest expense in the condensed consolidated statements of income and comprehensive income.

The following table summarizes the changes in fair value of the Company s Level 3 assets, as required by ASC 820 (in thousands):

Fair Value Measurements of Assets Using Level 3 Inputs	**Long-Term Investments Three Months Ended September 30, 2010**	**2009**
Beginning balance	$ 6,319	$ 3,837
Total losses (realized or unrealized):		
Included in earnings (3)	0	374
Included in accumulated other comprehensive loss	0	(383)
Transfers in and/or out of Level 3	0	0
Purchases, sales, issuances and settlements	0	0
Ending balance	$ 6,319	$ 3,846

(3) Losses included in earnings that are attributable to the change in unrealized losses relating to those assets still held at the reporting date as reported in impairment loss on investment securities in the condensed consolidated statements of income and comprehensive income.

Fair Value Measurements of Assets Using Level 3 Inputs	**Long-Term Investments**

	Nine Months Ended September 30, 2010	2009
Beginning balance	$ 6,319	$ 5,986
Total losses (realized or unrealized):		
Included in earnings (4)	0	1,827
Included in accumulated other comprehensive loss	0	313
Transfers in and/or out of Level 3	0	0
Purchases, sales, issuances and settlements	0	0
Ending balance	$ 6,319	$ 3,846

(4) Losses included in earnings that are attributable to the change in unrealized losses relating to those assets still held at the reporting date as reported in impairment loss on investment securities in the condensed consolidated statements of income and comprehensive income.

The fair value of the Company s long-term debt is estimated based on the quoted market prices for the same or similar issues or on the current rates offered to the Company for debt of the same remaining maturities.

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The estimated fair values of the Company s financial instruments are as follows (in thousands):

	September 30, 2010		December 31, 2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Senior Secured Credit Facility	$ 1,536,000	$ 1,505,280	$ 1,548,000	$ 1,470,600
9 1/4% Senior Notes	1,636,950	1,714,705	1,950,000	1,979,250
7 7/8% Senior Notes	1,000,000	1,015,000	0	0
Cash flow hedging derivatives	23,201	23,201	24,859	24,859
Short-term investments	1,012,632	1,012,632	224,932	224,932
Long-term investments	6,319	6,319	6,319	6,319

Although the Company has determined the estimated fair value amounts using available market information and commonly accepted valuation methodologies, considerable judgment is required in interpreting market data to develop fair value estimates. The fair value estimates are based on information available at September 30, 2010 and December 31, 2009 and have not been revalued since those dates. As such, the Company s estimates are not necessarily indicative of the amount that the Company, or holders of the instruments, could realize in a current market exchange and current estimates of fair value could differ significantly.

10. Net Income Per Common Share:

The following table sets forth the computation of basic and diluted net income per common share for the periods indicated (in thousands, except share and per share data):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Basic EPS:				
Net income applicable to common stock	$ 77,287	$ 73,550	$ 179,864	$ 143,719
Amount allocable to common shareholders	99.2%	99.6%	99.2%	99.6%
Rights to undistributed earnings	$ 76,695	$ 73,272	$ 178,482	$ 143,175
Weighted average shares outstanding basic	353,954,532	352,182,656	353,342,910	351,732,660
Net income per common share basic	$ 0.22	$ 0.21	$ 0.51	$ 0.41
Diluted EPS:				
Rights to undistributed earnings	$ 76,695	$ 73,272	$ 178,482	$ 143,175
Weighted average shares outstanding basic	353,954,532	352,182,656	353,342,910	351,732,660
Effect of dilutive securities:				

Stock options	2,468,684	3,176,780	2,250,869	4,778,900
Weighted average shares outstanding diluted	356,423,216	355,359,436	355,593,779	356,511,560
Net income per common share diluted	$ 0.22	$ 0.21	$ 0.50	$ 0.40

In accordance with ASC 260 (Topic 260, *Earnings Per Share*), unvested share-based payment awards that contain rights to receive non-forfeitable dividends or dividend equivalents, whether paid or unpaid, are considered a participating security for purposes of computing earnings or loss per common share and the two-class method of computing earnings per share is required for all periods presented. During the three and nine months ended September 30, 2010 and 2009, the Company issued restricted stock awards. Unvested shares of restricted stock are participating securities such that they have rights to receive forfeitable dividends. In accordance with ASC 260, the unvested restricted stock was considered a participating security for purposes of computing earnings per common share and was therefore included in the computation of basic and diluted earnings per common share.

Under the restricted stock award agreements, unvested shares of restricted stock have rights to receive non-forfeitable dividends. For the three and nine months ended September 30, 2010 and 2009, the Company has calculated diluted earnings per share under both the treasury stock method and the two-class method. There was not a significant difference in the per share amounts calculated under the two methods, and the two-class method is disclosed. For the three and nine months ended September 30, 2010, approximately 2.7 million of restricted common shares issued to employees have been excluded from the computation of basic net income per common share since the shares are not vested and remain subject to forfeiture. For the three and nine months ended September 30, 2009, approximately 1.3 million of restricted common shares issued to employees have been excluded from the computation of basic net income per common share since the shares are not vested and remain subject to forfeiture.

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For the three months ended September 30, 2010 and 2009, 22.3 million and 23.0 million, respectively, of stock options were excluded from the calculation of diluted net income per common share since the effect was anti-dilutive. For the nine months ended September 30, 2010 and 2009, 25.2 million and 15.7 million, respectively, of stock options were excluded from the calculation of diluted net income per common share since the effect was anti-dilutive.

11. Commitments and Contingencies:

The Company has entered into pricing agreements with various handset manufacturers for the purchase of wireless handsets at specified prices. The terms of these agreements expire on various dates through June 30, 2011. The total aggregate commitment outstanding under these pricing agreements is approximately $62.3 million.

Litigation

The Company is involved in litigation from time to time, including litigation regarding intellectual property claims, that it considers to be in the normal course of business. Legal proceedings are inherently unpredictable, and the matters in which the Company is involved often present complex legal and factual issues. The Company intends to vigorously pursue defenses in all matters in which it is involved and engage in discussions where possible to resolve these matters on terms favorable to the Company. The Company believes that any amounts alleged in the matters discussed below for which it is allegedly liable are not necessarily meaningful indicators of the Company s potential liability. The Company determines whether it should accrue an estimated loss for a contingency in a particular legal proceeding by assessing whether a loss is deemed probable and can be reasonably estimated. The Company reassesses its views on estimated losses on a quarterly basis to reflect the impact of any developments in the matters in which it is involved. It is possible, however, that the Company s business, financial condition and results of operations in future periods could be materially adversely affected by increased expense, significant settlement costs and/or unfavorable damage awards relating to such matters. Other than the matter listed below, the Company is not currently party to any pending legal proceedings that it believes could, individually or in the aggregate, have a material adverse effect on the Company s financial condition, results of operations or liquidity.

The Company, certain current officers and a director (collectively, the defendants) have been named as defendants in a securities class action lawsuit filed on December 15, 2009 in the United States District Court for the Northern District of Texas, Civil Action No. 3:09-CV-2392. Plaintiff alleges that the defendants violated Section 10(b) of the Exchange Act and Rule 10b-5 thereunder, and Section 20(a) of the Exchange Act. The complaint alleges that the defendants made false and misleading statements about the Company s business, prospects and operations. The claims are based upon various alleged public statements made during the period from February 26, 2009 through November 4, 2009. The lawsuit seeks, among other relief, a determination that the alleged claims may be asserted on a class-wide basis, unspecified compensatory damages, attorneys fees, other expenses, and costs. Defendants filed a motion to dismiss on August 9, 2010. Plaintiff filed its opposition to Defendant s motion to dismiss on September 8, 2010, and Defendants reply was filed on October 8, 2010. Due to the complex nature of the legal and factual issues involved in this action, the outcome is not presently determinable nor is a loss considered probable or reasonably estimatable. If this matter were to proceed beyond the pleading stage, the Company could be required to incur substantial costs and expenses to defend this matter and/or be required to pay substantial damages or settlement costs, which could materially adversely affect the Company s business, financial condition and results of operations.

12. Supplemental Cash Flow Information:

	Nine Months Ended September 30,

	2010	2009
	(in thousands)	
Cash paid for interest	$ 160,741	$ 136,675
Cash paid for income taxes	2,359	3,712

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Non-cash investing activities

The Company s accrued purchases of property and equipment were $71.1 million and $11.1 million as of September 30, 2010 and 2009, respectively. Included within the Company s accrued purchases are estimates by management for construction services received based on a percentage of completion.

During the nine months ended September 30, 2010, the Company returned obsolete network infrastructure assets to one of its vendors in exchange for $19.9 million in credit towards the purchase of additional network infrastructure assets with the vendor.

Assets acquired under capital lease obligations were $23.6 million and $51.8 million for the nine months ended September 30, 2010 and 2009, respectively.

During the nine months ended September 30, 2010 and 2009, the Company received $22.0 million and $52.3 million, respectively, in fair value of FCC licenses in exchanges with other parties.

13. Related-Party Transactions:

One of the Company s current directors is a managing director of various investment funds affiliated with one of the Company s greater than 5% stockholders. These funds own in the aggregate an approximate 17% interest in a company that provides services to the Company s customers, including handset insurance programs. Pursuant to the Company s agreement with this related-party, the Company bills its customers directly for these services and remits the fees collected from its customers for these services to the related-party. Transactions associated with these services are included in various line items in the accompanying condensed consolidated balance sheets and condensed consolidated statements of income and comprehensive income. The Company had the following transactions with this related-party (in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Fees received by the Company as compensation for providing billing and collection services included in service revenues	$ 2.3	$ 2.0	$ 6.8	$ 5.8
Handsets sold to the related-party included in equipment revenues	5.4	4.3	15.4	11.5

	September 30, 2010	December 31, 2009
Accruals for fees collected from customers included in accounts payable and accrued expenses	$ 4.7	$ 4.2
Receivables from the related-party included in other current assets	1.7	1.2

One of the Company s current directors is the chairman of an equity firm that holds various investment funds affiliated with one of the Company s greater than 5% stockholders. The equity firm is affiliated with a current director of a company that provides wireless caller ID with name services to the Company. Pursuant to an additional agreement with this related-party, the Company receives compensation for providing access to the Company s line information database/calling name data storage to the related-party. Transactions associated with these services are included in various line items in the accompanying condensed consolidated statements of income and comprehensive income. The Company had the following transactions with this related-party (in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Fees received by the Company as compensation for providing access to the Company s line information database /calling name data storage included in service revenues	$ 1.1	$ 0	$ 1.7	$ 0
Fees paid by the Company for wireless caller ID with name services included in cost of service	2.2	0.3	5.4	0.6

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MetroPCS Communications, Inc. and Subsidiaries

Notes to Condensed Consolidated Interim Financial Statements

(Unaudited)

One of the Company s current directors is a managing director of various investment funds affiliated with one of the Company s greater than 5% stockholders. These funds own in the aggregate an approximate 16% interest in a company that provides advertising services to the Company. The Company paid approximately $1.2 million and $1.3 million to the company for these services during the three months ended September 30, 2010 and 2009, respectively. The Company paid approximately $4.0 million and $3.8 million to the company for these services during the nine months ended September 30, 2010 and 2009, respectively.

One of the Company s current directors is a managing director of various investment funds affiliated with one of the Company s greater than 5% stockholders. These funds own in the aggregate an approximate 63% interest in a company that provides DAS leases and maintenance to wireless carriers, including the Company. In addition, another of the Company s current directors is a general partner of various investment funds which own in the aggregate an approximate 13% interest in the same company. These DAS leases are accounted for as capital or operating leases in the Company s financial statements. Transactions associated with these leases are included in various line items in the accompanying condensed consolidated balance sheets, condensed consolidated statements of income and comprehensive income, and condensed consolidated statements of cash flows. The Company had the following transactions with this related-party (in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	**2009**	**2010**	**2009**
Operating lease payments and related expenses included in cost of service	$ 2.5	$ 3.9	$ 7.6	$ 9.3
Capital lease maintenance expenses included in cost of service	1.0	0.4	3.3	1.2
DAS equipment depreciation included in depreciation expense	6.0	3.2	17.7	10.2
Capital lease interest included in interest expense	3.6	2.9	10.6	8.6

	September 30, 2010	**December 31, 2009**
Network service fees included in prepaid charges	$ 2.6	$ 2.3
DAS equipment included in property and equipment, net	291.4	257.0
Deferred network service fees included in other assets	18.3	22.1
Lease payments and related fees included in accounts payable and accrued expenses	2.4	4.9
Current portion of capital lease obligations included in current maturities of long-term debt	3.7	2.8
Non-current portion of capital lease obligations included in long-term debt, net	166.3	146.0
Deferred DAS service fees included in other long-term liabilities	1.7	1.3

	Nine Months Ended September 30,	
	2010	**2009**
Capital lease payments included in financing activities	$ 2.3	$ 2.2

14. Guarantor Subsidiaries:

In connection with Wireless sale of the 9 1/4% Senior Notes and 7 7/8% Senior Notes and its entry into the Senior Secured Credit Facility, MetroPCS, MetroPCS Inc., and each of Wireless direct and indirect present and future wholly-owned domestic subsidiaries (the guarantor subsidiaries), provided guarantees on the 9 1/4% Senior Notes, 7 7/8% Senior Notes and Senior Secured Credit Facility. These guarantees are full and unconditional as well as joint and several. Certain provisions of the Senior Secured Credit Facility and the indentures relating to the 9 1/4%

Senior Notes and 7 7/8% Senior Notes restrict the ability of Wireless to loan funds to MetroPCS. However, Wireless is allowed to make certain permitted payments to MetroPCS under the terms of the Senior Secured Credit Facility and the indentures relating to the 9 1/4% Senior Notes and 7 7/8% Senior Notes. Royal Street and MetroPCS Finance (the non-guarantor subsidiaries) are not guarantors of the 9 1/4% Senior Notes, 7 7/8% Senior Notes or the Senior Secured Credit Facility.

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MetroPCS Communications, Inc. and Subsidiaries

Notes to Condensed Consolidated Interim Financial Statements

(Unaudited)

The following information presents condensed consolidating balance sheets as of September 30, 2010 and December 31, 2009, condensed consolidating statements of income for the three and nine months ended September 30, 2010 and 2009, and condensed consolidating statements of cash flows for the nine months ended September 30, 2010 and 2009 of the parent company (MetroPCS), the issuer (Wireless), the guarantor subsidiaries and the non-guarantor subsidiaries (Royal Street and MetroPCS Finance). Investments in subsidiaries held by the parent company and the issuer have been presented using the equity method of accounting.

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MetroPCS Communications, Inc. and Subsidiaries

Notes to Condensed Consolidated Interim Financial Statements

(Unaudited)

Consolidated Balance Sheet

As of September 30, 2010

	Parent	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
			(in thousands)			
CURRENT ASSETS:						
Cash and cash equivalents	$ 500,498	$ 366,670	$ 665	$ 21,951	$ 0	$ 889,784
Short-term investments	374,862	637,770	0	0	0	1,012,632
Inventories, net	0	117,018	9,183	0	0	126,201
Accounts receivable, net	0	46,591	0	146	0	46,737
Prepaid expenses	0	293	51,639	8,111	0	60,043
Deferred charges	0	63,677	0	0	0	63,677
Deferred tax assets	0	5,959	0	0	0	5,959
Current receivable from subsidiaries	0	707,765	0	17,975	(725,740)	0
Advances to subsidiaries	642,052	586,372	0	3,463	(1,231,887)	0
Other current assets	87	21,504	18,520	610	0	40,721
Total current assets	1,517,499	2,553,619	80,007	52,256	(1,957,627)	2,245,754
Property and equipment, net	0	46,686	2,813,915	562,932	0	3,423,533
Restricted cash and investments	0	13,307	0	325	0	13,632
Long-term investments	6,319	0	0	0	0	6,319
Investment in subsidiaries	984,468	2,550,681	0	0	(3,535,149)	0
FCC licenses	0	3,800	2,193,230	293,599	0	2,490,629
Long-term receivable from subsidiaries	0	712,201	0	0	(712,201)	0
Other assets	0	64,884	54,232	21,630	0	140,746
Total assets	$ 2,508,286	$ 5,945,178	$ 5,141,384	$ 930,742	$ (6,204,977)	$ 8,320,613
CURRENT LIABILITIES:						
Accounts payable and accrued expenses	$ 5	$ 102,340	$ 291,531	$ 24,997	$ 0	$ 418,873
Current maturities of long-term debt	0	16,000	3,088	1,358	0	20,446
Current payable to subsidiaries	0	0	17,975	707,765	(725,740)	0
Deferred revenue	0	38,760	159,368	0	0	198,128
Current portion of cash flow hedging derivatives	0	18,015	0	0	0	18,015
Advances from subsidiaries	0	0	1,229,233	2,654	(1,231,887)	0
Other current liabilities	0	26,182	7,332	32	0	33,546
Total current liabilities	5	201,297	1,708,527	736,806	(1,957,627)	689,008
Long-term debt	0	4,116,436	139,937	57,732	0	4,314,105
Long-term payable to subsidiaries	0	0	0	712,201	(712,201)	0
Deferred tax liabilities	1,616	630,353	0	0	0	631,969
Deferred rents	0	0	81,682	14,268	0	95,950
Other long-term liabilities	0	12,624	60,495	9,797	0	82,916
Total liabilities	1,621	4,960,710	1,990,641	1,530,804	(2,669,828)	5,813,948

STOCKHOLDERS EQUITY:						
Preferred stock	0	0	0	0	0	0
Common stock	35	0	0	0	0	35
Additional paid-in capital	1,673,934	0	0	20,000	(20,000)	1,673,934
Retained earnings (deficit)	844,557	996,928	3,150,743	(620,062)	(3,527,609)	844,557
Accumulated other comprehensive (loss) income	(10,275)	(12,460)	0	0	12,460	(10,275)
Less treasury stock, at cost	(1,586)	0	0	0	0	(1,586)
Total stockholders equity	2,506,665	984,468	3,150,743	(600,062)	(3,535,149)	2,506,665
Total liabilities and stockholders equity	$ 2,508,286	$ 5,945,178	$ 5,141,384	$ 930,742	$ (6,204,977)	$ 8,320,613

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MetroPCS Communications, Inc. and Subsidiaries

Notes to Condensed Consolidated Interim Financial Statements

(Unaudited)

Consolidated Balance Sheet

As of December 31, 2009

	Parent	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
			(in thousands)			
CURRENT ASSETS:						
Cash and cash equivalents	$ 642,089	$ 269,836	$ 682	$ 16,774	$ 0	$ 929,381
Short-term investments	224,932	0	0	0	0	224,932
Inventories, net	0	131,599	15,802	0	0	147,401
Accounts receivable, net	0	51,438	0	98	0	51,536
Prepaid expenses	0	201	40,547	7,605	0	48,353
Deferred charges	0	59,414	0	0	0	59,414
Deferred tax assets	0	1,948	0	0	0	1,948
Current receivable from subsidiaries	0	423,275	0	14,574	(437,849)	0
Advances to subsidiaries	610,505	999,234	0	866	(1,610,605)	0
Other current assets	199	7,848	19,913	466	0	28,426
Total current assets	1,477,725	1,944,793	76,944	40,383	(2,048,454)	1,491,391
Property and equipment, net	0	34,128	2,722,813	495,272	0	3,252,213
Restricted cash and investments	0	15,113	0	325	0	15,438
Long-term investments	6,319	0	0	0	0	6,319
Investment in subsidiaries	804,847	2,162,686	0	0	(2,967,533)	0
FCC licenses	0	3,800	2,172,782	293,599	0	2,470,181
Long-term receivable from subsidiaries	0	829,360	0	0	(829,360)	0
Other assets	0	92,973	32,885	24,617	0	150,475
Total assets	$ 2,288,891	$ 5,082,853	$ 5,005,424	$ 854,196	$ (5,845,347)	$ 7,386,017
CURRENT LIABILITIES:						
Accounts payable and accrued expenses	$ 0	$ 223,973	$ 310,097	$ 24,296	$ 0	$ 558,366
Current maturities of long-term debt	0	16,000	2,451	875	0	19,326
Current payable to subsidiaries	0	0	14,574	423,275	(437,849)	0
Deferred revenue	0	38,502	149,152	0	0	187,654
Current portion of cash flow hedging derivatives	0	24,157	0	0	0	24,157
Advances from subsidiaries	0	0	1,610,605	0	(1,610,605)	0
Other current liabilities	0	84	7,851	31	0	7,966
Total current liabilities	0	302,716	2,094,730	448,477	(2,048,454)	797,469
Long-term debt	0	3,448,081	142,096	35,772	0	3,625,949
Long-term payable to subsidiaries	0	0	0	829,360	(829,360)	0
Deferred tax liabilities	749	511,557	0	0	0	512,306
Deferred rents	0	0	69,574	10,913	0	80,487
Other long-term liabilities	0	15,652	57,084	8,928	0	81,664
Total liabilities	749	4,278,006	2,363,484	1,333,450	(2,877,814)	5,097,875

STOCKHOLDERS EQUITY:						
Preferred stock	0	0	0	0	0	0
Common stock	35	0	0	0	0	35
Additional paid-in capital	1,634,754	0	0	20,000	(20,000)	1,634,754
Retained earnings (deficit)	664,693	818,343	2,641,940	(499,254)	(2,961,029)	664,693
Accumulated other comprehensive (loss) income	(11,340)	(13,496)	0	0	13,496	(11,340)
Total stockholders equity	2,288,142	804,847	2,641,940	(479,254)	(2,967,533)	2,288,142
Total liabilities and stockholders equity	$ 2,288,891	$ 5,082,853	$ 5,005,424	$ 854,196	$ (5,845,347)	$ 7,386,017

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MetroPCS Communications, Inc. and Subsidiaries

Notes to Condensed Consolidated Interim Financial Statements

(Unaudited)

Consolidated Statement of Income

Three Months Ended September 30, 2010

	Parent	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
			(in thousands)			
REVENUES:						
Service revenues	$ 0	$ 0	$ 946,773	$ 54,516	$ (59,038)	$ 942,251
Equipment revenues	0	4,437	74,101	0	0	78,538
Total revenues	0	4,437	1,020,874	54,516	(59,038)	1,020,789
OPERATING EXPENSES:						
Cost of service (excluding depreciation and amortization expense shown separately below)	0	0	339,145	33,581	(59,038)	313,688
Cost of equipment	0	4,118	252,147	0	0	256,265
Selling, general and administrative expenses (excluding depreciation and amortization expense shown separately below)	0	320	142,031	5,080	0	147,431
Depreciation and amortization	0	53	95,186	18,565	0	113,804
(Gain) loss on disposal of assets	0	0	(18,315)	(18)	0	(18,333)
Total operating expenses	0	4,491	810,194	57,208	(59,038)	812,855
(Loss) income from operations	0	(54)	210,680	(2,692)	0	207,934
OTHER EXPENSE (INCOME):						
Interest expense	0	63,136	2,358	40,541	(40,309)	65,726
Interest income	(456)	(40,319)	(31)	0	40,309	(497)
Other expense (income), net	0	492	947	(977)	0	462
Earnings from consolidated subsidiaries	(76,831)	(165,150)	0	0	241,981	0
Loss on extinguishment of debt	0	15,590	0	0	0	15,590
Total other (income) expense	(77,287)	(126,251)	3,274	39,564	241,981	81,281
Income (loss) before provision for income taxes	77,287	126,197	207,406	(42,256)	(241,981)	126,653
Provision for income taxes	0	(49,366)	0	0	0	(49,366)
Net income (loss)	$ 77,287	$ 76,831	$ 207,406	$ (42,256)	$ (241,981)	$ 77,287

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MetroPCS Communications, Inc. and Subsidiaries

Notes to Condensed Consolidated Interim Financial Statements

(Unaudited)

Consolidated Statement of Income

Three Months Ended September 30, 2009

	Parent	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
				(in thousands)		
REVENUES:						
Service revenues	$ 0	$ 0	$ 813,265	$ 42,088	$ (43,013)	$ 812,340
Equipment revenues	0	4,335	78,918	0	0	83,253
Total revenues	0	4,335	892,183	42,088	(43,013)	895,593
OPERATING EXPENSES:						
Cost of service (excluding depreciation and amortization expense shown separately below)	0	0	314,582	26,719	(43,013)	298,288
Cost of equipment	0	4,086	195,006	0	0	199,092
Selling, general and administrative expenses (excluding depreciation and amortization expense shown separately below)	0	249	132,984	5,227	0	138,460
Depreciation and amortization	0	73	85,634	13,270	0	