

METROPCS COMMUNICATIONS INC  
Form S-1  
January 04, 2007

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As filed with the Securities and Exchange Commission on January 4, 2007

Registration No. 333-

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM S-1**  
REGISTRATION STATEMENT  
UNDER  
THE SECURITIES ACT OF 1933

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**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)

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

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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. o

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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. o

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. o

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. o

### CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities To Be Registered	Proposed Maximum Aggregate Offering Price(1), (2)	Amount of Registration Fee
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.**

**SUBJECT TO COMPLETION, DATED JANUARY 4, 2007**

**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.**

**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 14.**

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

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**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**

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.

## 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."

Beginning in the second half of 2004, we began to strategically acquire licenses in 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 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 covering a population of 35-45 million in major metropolitan areas where we believe we have the opportunity to achieve financial results similar to our existing Core and Expansion Markets.

For the twelve month period ended December 31, 2005, on a consolidated basis, our Adjusted EBITDA as calculated in accordance with our then existing senior secured credit facility was \$294 million, cash flow from operations was \$283 million and net income was \$199 million. For the nine month period ended September 30, 2006, on a consolidated basis, our Adjusted EBITDA was \$285 million, cash flow from operations was \$285 million and net income was \$71 million. Our consolidated financial results for these periods reflect the expenses we have incurred, and continue to incur, as we build-out networks, launch our service and ramp up our customer growth in our Expansion Markets. For a discussion of consolidated Adjusted EBITDA and a reconciliation to net cash provided by operating activities, please read "Summary Historical Financial and Operating Data" and "Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources."

## 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, which provides unlimited usage from within a local calling area, represents a compelling value proposition for our customers that 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 cost per user per month, or 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 cost per gross addition, or 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 of Financial Condition and Results of Operations 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 1XRTT Network.*** We use a 100% code division multiple access radio transmission technology known as CDMA 1XRTT. In each of our Core and Expansion Markets the network is designed to provide the capacity necessary to satisfy the usage requirements of our



customers. We believe CDMA 1XRTT 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 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 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 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.

### **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<sup>1</sup>/<sub>4</sub>% 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, which 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.

### **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 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.

**THE OFFERING**

Common stock offered by MetroPCS shares

Common stock offered by the selling stockholders shares

Common stock to be outstanding after this offering shares

Use of proceeds We estimate that the net proceeds to us from this offering after expenses will be approximately \$ million, assuming an initial public offering price of \$ per share, the midpoint of the range set forth on the cover page of this prospectus. We intend to use the net proceeds from this offering primarily to build-out our network and launch our services in certain of our recently acquired Auction 66 Markets as well as for general corporate purposes. See "Use of Proceeds."

We will not receive any proceeds from the sale of shares of common stock by the selling stockholders.

Proposed symbol

Risk Factors See "Risk Factors" beginning on page 14 for a discussion of some of the factors you should consider carefully before deciding to invest in our common stock.

The number of shares of our common stock outstanding after this offering is based on shares of common stock outstanding as of , 200 , and excludes shares of common stock issuable upon the exercise of stock options outstanding as of , 200 , shares of common stock issuable upon exercise of stock options granted effective as of the consummation of this offering and shares of common stock available for issuance upon exercise of stock options not yet granted under our equity compensation plans.

## 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.

	Year Ended December 31,				Nine Months Ended September 30,	
	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
<b>Total revenues</b>	<b>129,341</b>	<b>451,109</b>	<b>748,250</b>	<b>1,038,428</b>	<b>750,199</b>	<b>1,093,771</b>
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
<b>Total operating expenses</b>	<b>(32,951)</b>	<b>409,936</b>	<b>620,492</b>	<b>616,251</b>	<b>372,278</b>	<b>923,279</b>
<b>Income from operations</b>	<b>162,292</b>	<b>41,173</b>	<b>127,758</b>	<b>422,177</b>	<b>377,921</b>	<b>170,492</b>
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 debt	703	(603)	(698)	46,448	46,448	(244)
<b>Total other expense</b>	<b>6,459</b>	<b>9,516</b>	<b>15,868</b>	<b>96,075</b>	<b>82,626</b>	<b>52,622</b>

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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 share	\$ 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	\$ 1.56	\$ (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)				
Diluted net income (loss) per common share	\$ 1.56	\$ (0.10)	\$ 0.46	\$ 1.87	\$ 1.74	\$ 0.56
Weighted average shares(1):						
Basic	36,236,434	36,443,962	42,240,684	45,117,465	43,517,417	51,890,687
Diluted	50,072,699	36,443,962	50,211,229	51,203,530	50,417,637	53,158,789

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	Year Ended December 31,				Nine Months Ended September 30,	
	2002	2003	2004	2005	2005	2006

(dollars, customers and POPs in thousands)

**Other Financial Data:**

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

**Consolidated Operating Data:**

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

**Core Markets Operating Data(5):**

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

**Expansion Markets Operating Data(5):**

Licensed POPs (at period end)(2)			3,744	38,789	15,927	39,577
Covered POPs (at period end)(2)				2,645		13,786
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%	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

Actual	As Adjusted(13)
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(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

(1)

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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.



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(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. 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.

	Nine Months Ended September 30,				Year Ended December 31,	
	2002	2003	2004	2005	2005	2006
(in thousands)						
<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
(Gain) loss on disposal of assets	(279,659)	392	3,209	(218,203)	(218,292)	10,763
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.

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.



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	Year Ended December 31,				Nine Months Ended September 30,	
	2002	2003	2004	2005	2005	2006
(in thousands)						
<b>Reconciliation of Net Cash (Used In) Provided By Operating Activities to Consolidated Adjusted 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 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

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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:

	Year Ended December 31,				Nine Months Ended September 30,	
	2002	2003	2004	2005	2005	2006
(in thousands, except average number of customers and ARPU)						
<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:

	Year Ended December 31,				Nine Months Ended September 30,	
	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

(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

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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:

	Year Ended December 31,				Nine Months Ended September 30,	
	2002	2003	2004	2005	2005	2006
(in thousands, except average number of customers and CPU)						
<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)
<b>Total costs used in the calculation of CPU</b>	<b>\$ 95,349</b>	<b>\$ 169,498</b>	<b>\$ 274,637</b>	<b>\$ 387,266</b>	<b>\$ 274,692</b>	<b>\$ 403,384</b>
Divided by: Average number of customers	210,881	775,605	1,207,521	1,649,208	1,593,848	2,281,261
<b>CPU</b>	<b>\$ 37.68</b>	<b>\$ 18.21</b>	<b>\$ 18.95</b>	<b>\$ 19.57</b>	<b>\$ 19.15</b>	<b>\$ 19.65</b>

(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.

## 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 a local calling 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 markets we have acquired but not launched or markets 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 markets beyond our Core Markets and these markets 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, (ii) non-facilities based mobile virtual network operators, or MVNOs, such as Virgin Mobile USA, Amp'd Mobile and Boost, (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. Also, certain mobile satellite providers recently have received authority to offer ancillary terrestrial service. Many major cable television service providers 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 implement those plans. 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, 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, a coalition of major cable companies acquired 20 MHz of spectrum in many of the metropolitan areas where we operate or will be operating. In addition, other carriers who offer unlimited fixed-rate service plans similar to ours 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 in our spectrum. 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 may auction additional spectrum in the 700 MHz band which will have similar characteristics to the cellular frequencies. Many of the wireless carriers against which we compete have service area footprints substantially larger than our footprint. In addition, certain of our competitors are 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 Wi-Max, 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 flat 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 licenses. At least one other unlimited fixed rate plan wireless carrier has been announced as the high bidder in Auction 66 in some of the same geographic areas in which we currently hold licenses or in which we were granted licenses as a result of Auction 66. Another fixed rate unlimited carrier may choose to begin service in the same geographic areas in which we currently offer service or plan to offer service, and such competition may reduce our growth, increase our churn, and cause us to incur additional costs to acquire customers, which may adversely affect our financial performance in the future. In addition, in the Auction 66 Markets in which we overlap with another unlimited fixed rate plan wireless carrier, we may not be able to launch our service first. 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.

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, we recently 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;

customer care concerns;

lack of early access to the newest handsets;

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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 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. 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

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 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.

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

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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 Wi-Fi or Wi-Max 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 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.

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 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 six-sector cell site technology, EV-DO Revision A with VoIP, 4G vocoders, and intelligent antennas. We have deployed six-sector technology and, while the results have shown capacity improvements over existing three-sector cell site technology, there can be no assurance that such improvements will actually occur when such technology is more widely deployed throughout a metropolitan area. 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 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 or the combined company 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.

***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 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 under Rule 701 under the Securities Act of 1933 or under the securities laws of various states. As a result, the holders of options and shares acquired from us in violation of federal and state securities laws may have a right to require us to repurchase those securities.

In order to address these issues, we intend to make a rescission offer to the holders of options to purchase 655,055 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 524 of our current and former officers and 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 and 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 required periodic reports 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. If any such claim 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 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 9<sup>1</sup>/<sub>4</sub>% 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 consequences to you. 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 payment 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.

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

We may be able to incur additional debt in the future. 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 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;

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 short-term incentive plan payment 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 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 operations.

***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, 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 were to consolidate with other tower companies, they may have the ability to raise prices which could materially affect our profitability. If any of the cell site leasing companies 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.



*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 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.

***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 reduce our profit margin. 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 have passed 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 states in which we conduct business will pass such 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.

*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.

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, 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 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.

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 Royal Street will be deemed 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' 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. 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 begin to expire in January 2007. We can seek to renew our PCS licenses for additional ten-year periods by filing renewal applications with the FCC. We have commenced the preparation and filing of renewal applications for certain of our PCS licenses as the renewal application window has opened on those licenses. 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. Further, 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. The FCC requires for renewal that a licensee provide substantial service. 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.

***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 as to 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 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, to purchase 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 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 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.

***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 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 control 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.

***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;

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."

***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.

**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," "should," "may," "will," "forecast," and other similar expressions. These forward-looking statements are contained throughout this offering memorandum, 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. 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 and cannot guarantee the accuracy and completeness of such information. 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.



### 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, 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.

**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.

	As of September 30, 2006	
	Actual	As Adjusted
	(in thousands)	
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	
Retained earnings	268,762	
Accumulated other comprehensive income	1,210	1,210
<b>Total Stockholders' Equity</b>	<b>\$ 427,689</b>	

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As of September 30, 2006

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Total Capitalization	\$	2,018,532
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(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; no shares authorized, 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; 300,000,000 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 .

**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:

	Shares purchased		Total consideration		Average price per share
	Number	%	Amount	%	
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.

## 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.

	Year Ended December 31,					Nine Months Ended September 30,	
	2001	2002	2003	2004	2005	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
<b>Total revenues</b>		<b>129,341</b>	<b>451,109</b>	<b>748,250</b>	<b>1,038,428</b>	<b>750,199</b>	<b>1,093,771</b>
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)	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
<b>Total operating expenses</b>	<b>28,659</b>	<b>(32,951)</b>	<b>409,936</b>	<b>620,492</b>	<b>616,251</b>	<b>372,278</b>	<b>923,279</b>
<b>Income (loss) from operations</b>	<b>(28,659)</b>	<b>162,292</b>	<b>41,173</b>	<b>127,758</b>	<b>422,177</b>	<b>377,921</b>	<b>170,492</b>
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)
<b>Total other expense</b>	<b>15,554</b>	<b>6,459</b>	<b>9,516</b>	<b>15,868</b>	<b>96,075</b>	<b>82,626</b>	<b>52,622</b>
<b>Income (loss) before provision for income taxes and cumulative effect of change in accounting principle</b>	<b>(44,213)</b>	<b>155,833</b>	<b>31,657</b>	<b>111,890</b>	<b>326,102</b>	<b>295,295</b>	<b>117,870</b>
<b>Provision for income taxes</b>		<b>(25,528)</b>	<b>(16,179)</b>	<b>(47,000)</b>	<b>(127,425)</b>	<b>(115,460)</b>	<b>(47,245)</b>
<b>Income (loss) before cumulative effect of change in accounting principle</b>	<b>(44,213)</b>	<b>130,305</b>	<b>15,478</b>	<b>64,890</b>	<b>198,677</b>	<b>179,835</b>	<b>70,625</b>
<b>Cumulative effect of change in accounting, net of tax</b>			<b>(120)</b>				
<b>Net income (loss)</b>	<b>(44,213)</b>	<b>130,305</b>	<b>15,358</b>	<b>64,890</b>	<b>198,677</b>	<b>179,835</b>	<b>70,625</b>
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)

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	Year Ended December 31,					Nine Months Ended September 30,								
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



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	Year Ended December 31,					Nine Months Ended September 30,	
	2001	2002	2003	2004	2005	2005	2006
(in thousands, except share and per share data)							
<b>Basic net income (loss) per common share(1):</b>							
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)				
<b>Basic net income (loss) per common share</b>	<b>\$ (1.42)</b>	<b>\$ 2.16</b>	<b>\$ (0.10)</b>	<b>\$ 0.55</b>	<b>\$ 2.12</b>	<b>\$ 2.02</b>	<b>\$ 0.57</b>
<b>Diluted net income (loss) per common share(1):</b>							
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)				
<b>Diluted net income (loss) per common share</b>	<b>\$ (1.42)</b>	<b>\$ 1.56</b>	<b>\$ (0.10)</b>	<b>\$ 0.46</b>	<b>\$ 1.87</b>	<b>\$ 1.74</b>	<b>\$ 0.56</b>
<b>Weighted average shares(1):</b>							
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

**Other Financial Data:**

Net cash (used in) provided by operating activities	\$ (32,401)	\$ (50,672)	\$ 112,605	\$ 150,379	\$ 283,216	\$ 247,015	\$ 284,688
Net cash provided by (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

	As of December 31,					As of September 30,	
	2001	2002	2003	2004	2005	2005	2006
(in thousands)							

**Balance Sheet Data:**

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

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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.

**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 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 covered 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 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. 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.

### **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.

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 allowances 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 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 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.

Our primary indefinite-lived intangible assets are our PCS licenses. 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 may not be recoverable. The impairment test consists of a comparison of the fair value with the carrying value. Estimates of the fair value of our PCS licenses are based primarily on discounted future cash flow projections. Cash flow projections, although subject to a degree of uncertainty, are based on trends of historical performance and management's estimate of future performance, giving consideration to existing and anticipated competitive economic conditions. 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.

No impairment charges have been recognized through September 30, 2006. If actual results are not consistent with our assumptions and estimates, we may be exposed to an additional impairment charge associated with indefinite-lived intangible assets. The carrying value of PCS licenses and microwave relocations costs was \$690.7 million as of September 30, 2006.

### ***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"), 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 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. 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.

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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:

Grants Made During the Quarter Ended	Number of Options Granted	Weighted Average Exercise Price	Weighted Average Market Value per Share	Weighted Average Intrinsic Value per Share
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 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 non-recurring 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.

*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.

### 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.

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
<b>Customers:</b>					
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
<b>Churn:</b>					
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 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 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 fees revenue 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 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.

### Operating Segments

Operating segments are defined by Statement of Financial Accounting Standards ("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 customer, method of distribution, and regulatory environment and have similar expected long-term financial performance and economic characteristics.

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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.

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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:

Reportable Operating Segment Data	Nine Months Ended September 30,		Change
	2006	2005	
	(in thousands)		
<b>REVENUES:</b>			
Service revenues:			
Core Markets	\$ 831,053	\$ 631,208	32%
Expansion Markets	85,126	1	**
<b>Total</b>	<b>\$ 916,179</b>	<b>\$ 631,209</b>	<b>45%</b>
Equipment revenues:			
Core Markets	\$ 149,200	\$ 118,973	25%
Expansion Markets	28,392	17	**
<b>Total</b>	<b>\$ 177,592</b>	<b>\$ 118,990</b>	<b>49%</b>
<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	**
<b>Total</b>	<b>\$ 313,510</b>	<b>\$ 201,940</b>	<b>55%</b>
Cost of equipment:			
Core Markets	\$ 261,258	\$ 210,431	24%
Expansion Markets	69,640	98	**
<b>Total</b>	<b>\$ 330,898</b>	<b>\$ 210,529</b>	<b>57%</b>
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	**
<b>Total</b>	<b>\$ 171,921</b>	<b>\$ 116,206</b>	<b>48%</b>
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%
<b>Total</b>	<b>\$ 96,187</b>	<b>\$ 61,895</b>	<b>55%</b>
Stock-based compensation expense:			

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	Nine Months Ended September 30,			
	2006	2005		
Core Markets	4,248	3,302		29%
Expansion Markets	\$ 3,304			**
	<u>7,750</u>	<u>3,302</u>		
Total	\$ 7,750	\$ 3,302		135%
<b>Income (loss) from operations:</b>				
Core Markets	\$ 269,735	\$ 388,572		(31)%
Expansion Markets	(96,904)	(9,635)		**
Other	(2,339)	(1,016)		130%
	<u>170,492</u>	<u>377,921</u>		<u>(55)%</u>
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."

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*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 is mainly attributable to a 25% increase in our Core Markets customer base from approximately 1,739,400 customers as of September 30, 2005 to approximately 2,174,300 customers as of September 30, 2006 as well as wider acceptance of higher priced rate plans across our customer base as evidenced by our increase in ARPU for the nine months ended September 30, 2006.

*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 Detroit metropolitan area in April 2006. Net customer additions in the Expansion Markets totaled approximately 389,300 customers during the nine months ended September 30, 2006. Since the launch of the Tampa/Sarasota metropolitan area in October 2005, we have added approximately 442,300 customers in our Expansion Markets.

*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 was attributable to a \$21.4 million, or 39%, increase in sales of new handsets to our existing customers due to the increased popularity of higher priced handset models available for purchase during the first nine months of 2006. An increase in gross customer additions and sales of the higher priced handset models to new customers in our Core Markets contributed to increased equipment revenues of \$8.8 million, or 14%, compared to the nine months ended September 30, 2005.

*Expansion Markets.* Expansion Markets equipment revenues were \$28.4 million for the nine months ended September 30, 2006. These revenues are attributable to gross customer additions of 470,150 customers due to the launch of the Tampa/Sarasota, Dallas/Ft. Worth and Detroit metropolitan areas.

*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 mainly 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 as 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



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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, \$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.

*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 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.

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*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.

Consolidated Data	Nine Months Ended September 30,		
	2006	2005	Change
	(in thousands)		
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 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 during the construction of a new market. 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. We expect capitalized interest to be significant during the construction of our additional Expansion Markets.

*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

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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.

*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.

Reportable Operating Segment Data	2005	2004	Change
	(in thousands)		
<b>REVENUES:</b>			
Service revenues:			
Core Markets	\$ 868,681	\$ 616,401	41%
Expansion Markets	3,419		**
	<u>          </u>	<u>          </u>	<u>          </u>
Total	\$ 872,100	\$ 616,401	41%
	<u>          </u>	<u>          </u>	<u>          </u>
Equipment revenues:			
Core Markets	\$ 163,738	\$ 131,849	24%
Expansion Markets	2,590		**
	<u>          </u>	<u>          </u>	<u>          </u>
Total	\$ 166,328	\$ 131,849	26%
	<u>          </u>	<u>          </u>	<u>          </u>
<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		**
	<u>          </u>	<u>          </u>	<u>          </u>
Total	\$ 283,212	\$ 200,806	41%
	<u>          </u>	<u>          </u>	<u>          </u>
Cost of equipment:			
Core Markets	\$ 293,702	\$ 222,766	32%
Expansion Markets	7,169		**
	<u>          </u>	<u>          </u>	<u>          </u>
Total	\$ 300,871	\$ 222,766	35%
	<u>          </u>	<u>          </u>	<u>          </u>
Selling, general and administrative expenses (excluding depreciation and amortization disclosed separately below) (1):			
Core Markets	\$ 153,321	\$ 131,510	17%
Expansion Markets	9,155		**
	<u>          </u>	<u>          </u>	<u>          </u>
Total	\$ 162,476	\$ 131,510	24%
	<u>          </u>	<u>          </u>	<u>          </u>
Adjusted EBITDA (Deficit)(2):			
Core Markets	\$ 316,555	\$ 203,597	55%
Expansion Markets	(22,090)		**
<b>Depreciation and amortization:</b>			
Core Markets	\$ 84,436	\$ 61,286	38%
Expansion Markets	2,030		**
Other	1,429	915	56%
	<u>          </u>	<u>          </u>	<u>          </u>

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Reportable Operating Segment Data	2005	2004	Change
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%

\*\*

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."

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*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 during the year ended December 31, 2005. Also, during 2005, we expanded our service plan options to include a \$45 plan which includes unlimited nationwide long distance, unlimited directory assistance and various unlimited data features, which contributed to the wider acceptance of higher priced rate plans across our customer base and resulted in increased service revenues as evidenced by our increase in ARPU for the year ended December 31, 2005.

*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 during the year ended December 31, 2005.

*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.

*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.

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

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*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.

Consolidated Data	2005	2004	Change
	(in thousands)		
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.

### *Year Ended December 31, 2004 Compared to Year Ended December 31, 2003*

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.

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

	2004	2003	Change
(in thousands)			
<b>Revenues</b>			
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 mainly attributable to the addition of approximately 422,000 customers during 2004 as well as a 10% increase in average revenue per user.

*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 was attributable to the increase in gross customer additions during the year of approximately 1.1 million as well as upgrade sales to our existing customers due to the increased number of handset models available for purchase during 2004.

*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.

*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.

**Quarterly Results of Operations**

The following tables present our unaudited condensed consolidated quarterly statement of operations data 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 interim financial statements.

	<b>Three Months Ended</b>		
	<b>March 31, 2006</b>	<b>June 30, 2006</b>	<b>September 30, 2006</b>
(in thousands)			
<b>REVENUES:</b>			
Service revenues	\$ 275,416	\$ 307,843	\$ 332,920
Equipment revenues	54,045	60,351	63,196
Total revenues	329,461	368,194	396,116
<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)
Total operating expenses	282,462	314,095	326,722
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)	
Total other expense	16,253	15,742	20,628
Income before provision for income taxes	30,746	38,357	48,766
Provision for income taxes	(12,377)	(15,368)	(19,500)
Net income	\$ 18,369	\$ 22,989	\$ 29,266

**Core Markets Performance Measures**

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

	<b>Year Ended December 31,</b>			<b>Nine Months Ended September 30,</b>	
	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2005</b>	<b>2006</b>
(dollars in thousands)					
<b>Core Markets Customers:</b>					
End of period	976,899	1,398,732	1,871,665	1,739,441	2,174,264

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	Year Ended December 31,			Nine Months Ended September 30,		
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%	

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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 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.

*Adjusted EBITDA.* 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, Core Markets Adjusted EBITDA was \$364.6 million compared to \$233.5 million for the same period in 2005. For the years ended December 31, 2005, 2004 and 2003, Core Markets Adjusted EBITDA was \$316.6 million, \$203.6 million and \$89.7 million, respectively. We continue to experience increases in Core Markets Adjusted EBITDA as a result of continued customer growth and cost benefits due to the increasing scale of our business in the Core Markets.

*Adjusted EBITDA as a Percent of Service Revenues.* Adjusted EBITDA as a percent of service revenues is calculated by dividing Adjusted EBITDA by total service revenues. Core Markets Adjusted EBITDA as a percent of service revenues for the nine months ended September 30, 2006 and 2005 was 44% and 37%, respectively. Core Markets Adjusted EBITDA as a percent of service revenues for the years ended December 31, 2005, 2004 and 2003 was 36%, 33% and 24%, respectively. Consistent with the increase in Core Markets Adjusted EBITDA, we continue to experience corresponding increases in Core Markets Adjusted EBITDA as a percent of service revenues due to the growth in service revenues as well as cost benefits due to the increasing scale of our business in the Core Markets.

### Expansion Markets Performance Measures

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

Year Ended December 31,			Nine Months Ended September 30,	
2003	2004	2005	2005	2006
(dollars in thousands)				

#### 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)	\$ (79,394)

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*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 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 \$78.9 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.

### 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.

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

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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.

	Year Ended December 31,			Nine Months Ended September 30,	
	2003	2004	2005	2005	2006
(in thousands, except average number of customers and ARPU)					
<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

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 Ended September 30,	
	2003	2004	2005	2005	2006
(in thousands, except gross customer additions and CPGA)					
<b>Calculation of Cost Per Gross Addition (CPGA):</b>					
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: Equipment costs not associated with new customers	(22,549)	(72,200)	(109,803)	(77,910)	(108,292)
Gross addition expenses	\$ 89,849	\$ 117,771	\$ 157,338	\$ 107,828	\$ 192,355
Divided by: Gross customer additions	894,348	1,134,762	1,532,071	1,062,772	1,650,282

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	Year Ended December 31,			Nine Months Ended September 30,	
CPGA	\$ 100.46	\$ 103.78	\$ 102.70	\$ 101.46	\$ 116.56

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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 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.

	Year Ended December 31,			Nine Months Ended September 30,	
	2003	2004	2005	2005	2006
	(in thousands, except average number of customers and CPU)				
<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)
	\$ 169,498	\$ 274,637	\$ 387,266	\$ 274,692	\$ 403,384
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
	\$ 18.21	\$ 18.95	\$ 19.57	\$ 19.15	\$ 19.65
CPU	\$ 18.21	\$ 18.95	\$ 19.57	\$ 19.15	\$ 19.65

### 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 meet our projected operating and capital requirements for our existing business.



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 will be material. 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 initial operating costs associated with such license area. We intend to focus our build-out strategy in our new Auction 66 Markets initially on licenses covering a population of 35-45 million in major metropolitan areas where we believe we have the opportunity to achieve financial results similar to our existing Core and Expansion Markets. Historically, our average cumulative expense and capital investment per covered population at the time of launch has generally been between \$15 and \$21. Our build-out and launch of these metropolitan areas is dependent on proceeds from this offering and our ability to generate substantial excess free cash flow from existing operations.

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 \$471.8 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.

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 9<sup>1</sup>/<sub>4</sub>% 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

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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. 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.

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 Ended September 30,	
	2003	2004	2005	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	\$ 302,638
<b>Adjustments:</b>					
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)	(65,407)
	<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 284% increase in net income during the nine months ended September 30, 2006 compared to the nine months ended September 30, 2005, adjusted for the \$228.2 million gain on the 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 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.

#### ***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<sup>1</sup>/<sub>4</sub>% Senior Notes Due 2014***

On November 3, 2006, MetroPCS Wireless, Inc. also consummated the sale of \$1.0 billion principal amount of its 9<sup>1</sup>/<sub>4</sub>% 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

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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.

### *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. We anticipate making additional material capital expenditures related to the Auction 66 licenses, which were granted to us on November 29, 2006.

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.

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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.

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.

	Payments Due by Period				
	Total	Less Than 1 Year	1 - 3 Years	3 - 5 Years	More Than 5 Years
(in thousands)					
<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<sup>1</sup>/<sub>4</sub>% 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.

## **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.

### **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.

## 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 in 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 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 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

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 1XRTT Network.* We deploy a 100% CDMA 1XRTT 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 1XRTT 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 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 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 in the Miami, Atlanta, Sacramento and San Francisco metropolitan areas. In 1999, GWI changed its name to MetroPCS Wireless, 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-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

Product	\$30/Month	\$35/Month	\$40/Month	\$45/Month
Unlimited local calling	X	X	X	X
Unlimited nationwide long distance calling			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

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.

*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 in 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 Expansion Markets except for Los Angeles, which we expect to launch in the second 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 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.

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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.

Metropolitan Area	BTA	POPs ( <sup>'000s</sup> )	POP Density(2)	Annualized POP Growth(3)	MHz	Launch Date
<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
<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 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.

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- (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.

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 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.

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 covering a population of 35-45 million in major metropolitan areas which we believe offer us the opportunity to achieve financial results similar to our existing Core and Expansion Markets. Our build-out and launch of these markets is dependent on the proceeds of this offering and our ability to generate excess free cash flow from our existing operations.

License		Purchase Price	Spectrum MHz	Population
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



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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 could be material, 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, 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. 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.

#### **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 on 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.

#### **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 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 2,837 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 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.

*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, 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, Boost Mobile, 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 rate plans similar to ours. 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.

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 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.

### 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

	Net Additions			Subscribers		
	Core Markets	Expansion Markets	Consolidated	Core Markets	Expansion Markets	Consolidated
(in 000s)						
<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.

## **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.

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 end in January 2007 and we will need to renew them. Our initial AWS license terms end in November 2021. Near the conclusion of the license term, we must file applications to renew each license for an additional ten-year term or the license will expire. 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 at the end of their terms. 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.

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. The 70 MHz benchmark may change over time as more and more broadband spectrum is made available, and its applicability to AWS or 700MHz 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.

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 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 designed 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 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 indirect foreign ownership in excess of the statutory 25% benchmark particularly if that interest is held by an entity or entities from World Trade Organization member countries. For investors from countries that are not members of the World Trade Organization, the FCC determines if the home country extends reciprocal treatment, called "equivalent competitive opportunities," to United States entities. If these opportunities do not exist, the FCC may not permit such foreign investment beyond the 25% benchmark. We have adopted internal procedures to assess the nature and extent of our foreign ownership, and we believe that the indirect ownership of our equity by foreign entities is below the benchmarks established by the Communications Act. If we have foreign ownership in excess of the limits, we have the right to acquire the portion of the foreign investment which places us over the foreign ownership restriction. Nevertheless, these foreign ownership restrictions could affect our ability to attract additional equity financing and complying with the restrictions could increase our cost of operations.

### **General Regulatory Obligations**

The Communications Act and the FCC's rules impose a number of requirements upon wireless broadband PCS, and in many instances AWS, licensees. These requirements, summarized below, could increase our costs of doing business.

Federal legislation enacted in 1993 requires the FCC to reduce the disparities in the regulatory treatment of similar mobile services, such as cellular, PCS and Enhanced Specialized Mobile Radio, or ESMR, services. Under this regulatory structure, our wireless broadband PCS and AWS services are classified as CMRS. The FCC regulates providers of CMRS services as common carriers, which subjects us to many requirements under the Communications Act and FCC rules and regulations. The FCC, however, has exempted CMRS offerings from some typical common carrier regulations, such as tariff and interstate certification filings, which allows us to respond more quickly to competition in the marketplace. The 1993 federal legislation also preempted state rate and entry regulation of CMRS providers.

The FCC permits cellular, broadband PCS, paging and ESMR licensees to offer fixed services on a co-primary basis along with mobile services. This rule may facilitate the provision of wireless local loop service by CMRS licensees using wireless links to provide local telephone service. The extent of lawful state regulation of such wireless local loop service is undetermined. While we do not presently have a fixed service offering, our network can accommodate such a service. We continue to evaluate our service offerings, which may include a fixed service plan at some point in the future.

The spectrum allocated for broadband PCS was utilized previously by fixed microwave systems. To foster the orderly clearing of the spectrum, the FCC adopted a transition and cost sharing plan pursuant to which incumbent microwave users could be reimbursed for relocating out of the band and the costs of relocation were shared by the broadband PCS licensees benefiting from the relocation. Under the FCC regulations, DEs were able to pay microwave reimbursed clearing obligations through installment payments. We incurred various microwave relocation obligations pursuant to this transition plan. The transition and cost sharing plans expired in April 2005, at which time remaining microwave incumbents in the broadband PCS spectrum remained obligated to relocate to different spectrum but assumed responsibility for their costs to relocate to alternate spectrum. We have fulfilled all of the relocation obligations (and related payments) directly incurred in our broadband PCS markets. As of September 30, 2006, we had no obligations payable to other carriers under cost sharing plans for

microwave relocation in our markets. As a result of the offer to purchase made by Madison Dearborn Capital Partners IV, L.P. and certain affiliates of TA Associates, Inc. in 2005, we ceased being a DE and are in the process of paying off all remaining microwave clearing obligations to other carriers. This process has taken longer than we anticipated which could give rise to an objection by a carrier to which microwave clearing payments are due.

In addition, spectrum allocated for AWS currently is utilized by a variety of categories of commercial and governmental users. To foster the orderly clearing of the spectrum, the FCC adopted a transition and cost sharing plan pursuant to which incumbent non-governmental users could be reimbursed for relocating out of the band and the costs of relocation would be shared by AWS licensees benefiting from the relocation. The FCC has established a plan where the AWS licensee and the incumbent non-governmental user are to negotiate voluntarily for three years and then, if no agreement has been reached, the incumbent licensee is subject to mandatory relocation where the AWS licensee can force the incumbent non-governmental licensee to relocate at the AWS licensee's expense. The spectrum allocated for AWS currently is utilized also by governmental users. The FCC rules provide that a portion of the money raised in Auction 66 will be used to reimburse the relocation costs of governmental users from the AWS band. However, not all governmental users are obligated to relocate. We have not yet determined the costs we may incur to relocate the incumbent licensees in the areas where we have been granted licenses in Auction 66, which costs could be material, and the time it will take to clear the AWS spectrum in markets where we acquired licenses is uncertain.

We are obligated to pay certain annual regulatory fees and assessments to support FCC wireless industry regulation, as well as fees supporting federal universal service programs, number portability, regional database costs, centralized telephone numbering administration, telecommunications relay service for the hearing-impaired and application filing fees. These fees are subject to increase by the FCC periodically.

The FCC requires CMRS providers to implement basic 911 and enhanced, or E-911, emergency services. Our obligation to implement these services is incurred in stages on a market-by-market basis as local emergency service providers request E-911 services. These services allow state and local emergency service providers to better identify and locate callers using wireless services, including callers using special devices for the hearing impaired. We have constructed facilities to implement these capabilities in markets where we have had requests and are in the process of constructing facilities in the markets we launched recently. The FCC also has rules that require us, because we employ a handset-based location technology, to ensure that specified percentages of the handsets in service on the system be location capable. As of December 31, 2005, 95% of our handsets were required to be location-capable and we met this requirement. Failure to maintain compliance with the FCC's E-911 requirements can subject us to significant penalties. The extent to which we must deploy E-911 services affects our capital spending obligations. In 1999, the FCC amended its rules to no longer require compensation by the state to carriers for E-911 costs and to expand the circumstances under which wireless carriers may be required to offer E-911 services to the public safety agencies. States in which we do business may limit or eliminate our ability to recover our E-911 costs. Federal legislation enacted in 1999 may limit our liability for uncompleted 911 calls to a similar level to wireline carriers in our markets.

Federal law requires CMRS carriers to provide law enforcement agencies with support for lawful wiretaps. Federal law also requires compliance with wiretap-related record-keeping and personnel-related obligations. Complying with these E-911 and law enforcement wiretap requirements may require systems upgrades creating additional capital obligations for us and additional personnel, a process which may cost us additional expense which we may not be able to recover. Our customer base may be subject to a greater percentage of law enforcement requests than those of other carriers and that the resulting expenses incurred by us to cooperate with law enforcement are proportionately greater.

Because the availability of telephone numbers is dwindling, the FCC has adopted number pooling rules that govern how telephone numbers are allocated. Number pooling is mandatory inside the wireline rate centers where we have drawn numbers and that are located in counties included in the top 100 metropolitan statistical areas, or MSAs, as defined by FCC rules. We have implemented number pooling and support pooled number roaming in all of our markets which are included in the top 100 MSAs. The FCC also has authorized states to start limited numbering administration to supplement federal requirements and some of the states where we provide service have been authorized by the FCC to start limiting numbering administration.

In addition, the FCC has ordered all telecommunications carriers, including CMRS carriers, to provide telephone number portability enabling subscribers to keep their telephone numbers when they change telecommunications carriers, whether wireless to wireless or, in some instances, wireline to wireless, and vice versa. Under these local number portability rules, a CMRS carrier located in one of the top 100 MSAs must have the technology in place to allow its customers to keep their telephone numbers when they switch to a new carrier. Outside of the top 100 MSAs, CMRS carriers receiving a request to allow end users to keep their telephone numbers must be capable of doing so within six months of the request or within six months of November 24, 2003, whichever is later. In addition, all CMRS carriers are required to support nationwide roaming for customers retaining their numbers. We currently support number portability in all of our markets.

FCC rules provide that all local exchange carriers must, upon request, enter into mutual or reciprocal compensation arrangements with CMRS carriers for the exchange of local traffic, under which each carrier compensates the other for terminated local traffic originating on the compensating carrier's network. Local traffic is defined for purposes of the reciprocal compensation arrangement between local exchange carriers and CMRS carriers as intra-MTA traffic, and thus the FCC's reciprocal compensation rules apply to any local traffic originated by a CMRS carrier and terminated by a local exchange carrier within the same MTA and vice versa, even if such traffic is interexchange. While these rules provide that local exchange carriers may not charge CMRS carriers for facilities used by CMRS carriers to terminate local exchange carriers' traffic, local exchange carriers may charge CMRS carriers for facilities used to transport and terminate CMRS traffic and for facilities used for transit purposes to carry CMRS carrier traffic to a third carrier. FCC rules also provide that, on the CMRS carrier's request, incumbent local exchange carriers must exchange local traffic with CMRS carriers at rates based on the FCC's costing rules; rates are set by state public utility commissions applying the FCC's rules. The rules governing CMRS interconnection are under review by the FCC in a rulemaking proceeding, and we cannot be certain whether or not there will be material changes in the applicable rules, and if there are changes, whether they will be beneficial or detrimental to us.

Before 2005, some local exchange carriers claimed a right by filing a state tariff to impose unilateral charges on CMRS carriers for the termination of CMRS carriers' traffic on the local exchange carrier's network, often at above-cost rates. In 2005, the FCC issued a Report and Order holding that, on a going forward basis, no local exchange carrier was permitted to unilaterally impose tariffed rates for the termination of a CMRS carrier's traffic. This Report and Order imposed on CMRS carriers an obligation to engage in voluntary negotiation and arbitration with incumbent local exchange carriers similar to those imposed on the incumbent local exchange carriers pursuant to Section 252 of the Communications Act. Further, the FCC found that its prior rules did not preclude incumbent local exchange carriers from imposing unilateral charges pursuant to tariff for the period prior to the effective date of the Report and Order. Finally, the Report and Order found that, once an incumbent local exchange carrier requested negotiation of an interconnection arrangement, both carriers are obligated to begin paying the FCC's default rates for all traffic exchanged after the request for negotiation. Several CMRS carriers and incumbent local exchange carriers have appealed the Report and Order and we have sought clarification on certain aspects of the Report and Order. In the meantime, a number of local exchange carriers and incumbent local exchange carriers have demanded

that we pay bills for traffic exchanged in the past and we are evaluating those demands. We may pay some portion of these amounts, which may be material. Also, a number of local exchange carriers have requested that we enter into negotiations for interconnection agreements and, as a result of such negotiations, we may be obligated to pay amounts to settle prior claims and on a going forward basis, and such amounts may be material. Also, other local exchange companies have threatened to sue us if agreements governing termination compensation are not reached. We generally have been successful in negotiating arrangements with carriers with whom we exchange traffic; however, our business could be adversely affected if the rates some carriers charge us for terminating our customers' traffic ultimately prove to be higher than anticipated. In one case, a complaint has been filed by a CLEC against us before the FCC claiming a right to terminating compensation payments on a going forward basis and going backward basis at a rate that we consider to be excessive. We are vigorously defending against the complaint, but cannot predict the outcome at this time. An adverse outcome could be material.

The FCC has adopted rules requiring interstate communications carriers, including CMRS carriers, to "make an equitable and non-discriminatory contribution" to a Universal Service Fund, or USF, that reimburses communications carriers providing basic communications services to users receiving services at subsidized rates. We have made these FCC-required payments. The FCC recently started a rulemaking proceeding to solicit public comment on ways of reforming both how it assesses carrier USF contributions and how carriers may recover their costs from customers and some of the proposals may cause the amount of USF contributions required from us and our customer to increase. Effective April 1, 2003, the FCC prospectively forbade carriers from recovering administrative costs related to administering the required universal service assessments from customers as USF charges. The FCC's rules require carriers' USF recovery charges to customers not exceed the assessment rate the carrier pays times the proportion of interstate telecommunications revenue on the bill. We are currently in compliance with these requirements.

Wireless broadband carriers may be designated as Eligible Telecommunications Carriers, or ETCs, and may receive universal service support for providing service to customers using wireless service in high cost areas. Other wireless broadband carriers operating in states where we operate have obtained or applied for ETC status. Such other carriers' receipt of universal service support funds may affect our competitive status in a particular market by allowing our competitors to offer service at a lower rate. We may decide in the future to apply for this designation in certain qualifying high cost areas where we provide wireless services. If we are approved, these payments would be an additional revenue source that we could use to support the services we provide in high cost areas.

CMRS carriers are exempt from the obligation to provide equal access to interstate long distance carriers. However, the FCC has the authority to impose rules requiring unblocked access through carrier identification codes or 800/888 numbers to long distance carriers so CMRS customers are not denied access to their chosen long distance carrier, if the FCC determines the public interest so requires. Our customers have access to alternative long distance carriers using toll-free numbers.

FCC rules also impose restrictions on a telecommunications carrier's use of customer proprietary network information, or CPNI, without prior customer approval, including restrictions on the use of information related to a customer's location. The FCC recently began an investigation into whether CMRS carriers are properly protecting the CPNI of their customers against unauthorized disclosure to third parties. In February 2006, the FCC requested that all CMRS carriers provide a certificate from an officer of the CMRS carrier based on personal knowledge that the CMRS carrier was in compliance with all CPNI rules. We have provided such a certificate. The FCC also has proposed substantial fines on certain wireless carriers for their failure to comply with the FCC's CPNI rules. We believe that our current practices are consistent with existing FCC rules on CPNI, and do not foresee new costs or limitations on our existing practices as a result of FCC rules in that area. However, in February 2006, the FCC also adopted a notice of proposed rulemaking seeking comment on a variety of issues related to customer privacy, including what additional security measures may be warranted to protect a

customer's CPNI. Congress and state legislators also are in the process of enacting legislation which addresses the use and protection of CPNI which may impact our obligations. For example, Congress recently enacted the Telephone Records and Privacy Protection Act of 2006, which imposes criminal penalties upon persons who purchase without a customer's consent, or use fraud to gain unauthorized access to, telephone records. The FCC's proposed rules, if adopted or modified, and the recent and pending legislation (if enacted) may require us to change how we protect our customer's CPNI and could require us to incur additional costs, which costs may be material.

Telecommunications carriers are required to make their services accessible to persons with disabilities. These FCC rules generally require service providers to offer equipment and services accessible to and usable by persons with disabilities, if readily achievable, and to comply with FCC-mandated complaint/grievance procedures. These rules are largely untested and are subject to interpretation through the FCC's complaint process. While these rules principally focus on the manufacturer of the equipment, we could have costly new requirements imposed on us and, if we were found to have violated the rules, be subject to fines, which fines could be material. As a related matter, on July 10, 2003, the FCC issued an order requiring digital wireless phone manufacturers and wireless service providers (including us) to take steps ensuring the availability of hearing aid compatible digital wireless phones, which may increase our costs for handsets we sell.

The FCC has determined that long distance or interexchange service offerings from CMRS providers are subject to Communications Act rate averaging and rate integration requirements. Rate averaging requires us to average our intrastate long distance CMRS rates between rural and high cost areas and urban areas. The FCC has delayed implementation of rate integration requirements for wide area rate plans pending further reconsideration of its rules, and has also delayed a requirement that CMRS carriers integrate their rates among CMRS affiliates. Other aspects of the FCC's rules have been vacated by the United States Court of Appeals for the District of Columbia Circuit, and are subject to further consideration by the FCC. There is a pending proceeding for the FCC to determine how integration requirements apply to CMRS offerings, including single rate plans. Our pricing flexibility is reduced to the extent we offer services subject to these requirements, and we cannot assure you that the FCC will decline imposing these requirements on us.

Antenna structures used by us and other wireless providers are subject to FCC rules implementing the National Environmental Policy Act and the National Historic Preservation Act. Under these rules, construction cannot begin on any structure that may significantly affect the human environment or that may affect historic properties until the wireless provider has filed an environmental assessment with and obtained approval from the FCC. Processing of environmental assessments can delay construction of antenna facilities, particularly if the FCC determines that additional information is required or if community opposition arises. In addition, several environmental groups have unsuccessfully requested changes to the FCC's environmental processing rules, challenged specific environmental assessments as failing statutory requirements and sought to have the FCC conduct a comprehensive assessment of antenna tower construction environmental effects. The FCC also is considering the impact that communications facilities, including wireless towers and antennas, may have on migratory birds. In August of 2003, the FCC initiated a rulemaking proceeding seeking information on whether rule changes should be adopted to reduce the risk of migratory bird collisions with commercial towers. The FCC released a Notice of Proposed Rulemaking in this proceeding on November 7, 2006, in which the FCC tentatively concludes that medium-intensity white strobe lights should be considered the preferred system in place of red obstruction lighting systems to the maximum extent possible without compromising safety. The FCC also seeks comments on the possible adoption of various other measures that might serve to mitigate the impact of communications towers on migratory birds. In the meantime, there are a variety of federal and state court actions in which citizen and environmental groups have sought to deny tower approvals based upon potential adverse impacts to migratory birds. Although we use antenna structures that are owned and maintained by third parties, the results of

these FCC and court proceedings could have an impact on our efforts to secure access to particular towers, or the costs of access.

The location and construction of PCS antennas, base stations and towers also are subject to FCC and Federal Aviation Administration regulations, federal, state and local environmental regulation, and state and local zoning, land use and other regulation. Before we can put a system into commercial operation, we, or the tower owner in the case of leased sites, must obtain all necessary zoning and building permit approvals for the cell site and microwave tower locations. The time needed to obtain necessary zoning approvals and state permits varies from market to market and state to state. Variations also exist in local zoning processes. Further, certain municipalities impose severe restrictions and limitations on the placement of wireless facilities which may impede our ability to provide service in that area. In 2002, the Board of Supervisors for the City and County of San Francisco, or the City of San Francisco, denied certain applications to construct three sites in the City of San Francisco. The City of San Francisco claimed that additional facilities were not necessary because adequate services are available from other wireless carriers. In July 2002, we filed suit against the City of San Francisco and its Board of Supervisors based on their denial of our applications. The trial was conducted in late March 2006 and early April 2006. In June 2006, the court found in favor of the City of San Francisco and denied our applications. The court clarified that a gap in coverage existed, but that we had not used the least restrictive means to provide service in the area. None of the parties to the proceeding have appealed and the time to bring an appeal has expired. A failure or inability to obtain necessary zoning approvals or state permits, or to satisfy environmental rules may make construction impossible or infeasible on a particular site, might adversely affect our network design, increase our network design costs, require us to use more costly alternative technologies, such as distributed antenna systems, reduce the service provided to our customers, and affect our ability to attract and retain customers.

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 wireless networks. Unlike broadcast and cable networks, however, our infrastructure and protocols like those of all other similarly-situated wireless broadband CMRS 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 short messaging service 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. Adoption of such requirements, however, could require new components within our network and transmission infrastructure and also require consumers to purchase new handsets. Congress recently passed the Warning, Alert, and Response Network Act as part of the Security and Accountability For Every Port Act of 2006. In this Act, which was recently signed into law, Congress provided for the establishment, within 60 days of enactment, of an advisory committee to provide recommendations to the FCC regarding technical standards and protocols under which electing commercial mobile radio service, or CMRS, providers may offer subscribers the capability of receiving emergency alerts. The FCC is required to complete a proceeding to adopt relevant technical standards, protocols, procedures, and other technical requirements based on the recommendations of such Advisory Committee necessary to enable alerting capability for CMRS providers that voluntarily elect to transmit emergency alert. 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 alert is limited. The FCC is obligated to complete



its rulemaking implementing such rules within a relatively short period of time after receiving the recommendations from the advisory committee. Until the FCC promulgates rules, we do not know if they will adopt such requirements, and if it does, what their impact will be on our infrastructure and service.

The FCC historically has required that CMRS providers permit customers of other carriers to roam "manually" on their networks, for example, by supplying a credit card number, provided that the roaming customer's handset is technically capable of accessing the roamed-on network. The FCC recently initiated a notice of proposed rulemaking seeking comments on whether automatic roaming services are considered common carrier services, whether CMRS carriers have an obligation to offer automatic roaming services to other carriers, whether carriers have an obligation to provide non-voice roaming services, and what rates a carrier may charge for roaming services. The FCC previously initiated roaming proceedings on similar issues but failed to resolve these issues. Roaming rights are important to us because we have a limited service area and must rely on other carriers in order to offer roaming outside our existing service areas. We have commented in this proceeding in support of an FCC rule requiring carriers to honor requests for automatic roaming at reasonable, non-discriminatory rates. However, we cannot predict the likely outcome of this proceeding or the likely timing of an FCC ruling. If the FCC decides not to require automatic roaming at reasonable non-discriminatory rates, or limits roaming to voice services only, we may have difficulty attracting and retaining certain groups of customers which could have an adverse impact on our business.

In September of 2004, the FCC issued a Report and Order and Further Notice of Proposed Rulemaking and adopted several measures designed to increase carrier flexibility, reduce regulatory costs and to promote access to capital and spectrum for entities seeking to provide or improve wireless service to rural areas, including the relaxation of the FCC rule that prohibited a carrier from having any interest in both the Block A and Block B cellular licenses in a common market. These rule changes create potential opportunities for us if we seek to extend our service to rural markets, but also could benefit our competitors.

On November 20, 2006, the Copyright Office of the Library of Congress, or the Copyright Office, released the final rules in its triennial review of the exemptions to the prohibition on circumvention of copyright protection systems for access control technologies, or Triennial Review, contained in the Digital Millennium Copyright Act, or DMCA. In 1998, Congress enacted the DMCA, which among other things amended the United States Copyright Act to add a section prohibiting the circumvention of technological measures employed to protect a copyrighted work, or access control. In addition, the Copyright Office has the authority to exempt certain activities which otherwise might be prohibited by that section for a period of three years when users are (or in the next three years are likely to be) adversely affected by the prohibition in their ability to make noninfringing uses of a class of copyrighted work. Many carriers, including us, routinely place software locks on their 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 customers to use their wireless handsets on the networks of other carriers. Since many of our competitors generally subsidize their wireless handsets substantially more than we do, customers of our competitors may find it attractive to bring their phones to us for

activation. This may result in us experiencing lower costs to add customers. 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 wireless handset. The ability of our customers to leave our service and use their wireless handsets to receive a competitor's service may have an adverse material impact on our business. In addition, since our subsidy for handsets to our distribution partners 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.

### **State, Local and Other Regulation**

The Communications Act preempts state or local regulation of market entry or rates charged by any CMRS provider. As a result, we are free to establish rates and offer new products and services with minimum state regulation. However, states may continue regulating "other terms and conditions" of wireless service, and certain states where we operate maintain additional oversight jurisdiction, primarily focusing upon consumer protection issues and resolution of customer complaints. In addition, several state authorities have initiated actions or investigations of various wireless carrier practices. The outcome of these proceedings is uncertain and could require us to change our marketing practices, ultimately increasing state regulatory authority over the wireless industry. State and local governments also may manage public rights of way and can require fair and reasonable compensation from telecommunications carriers, including CMRS providers, for the use of such rights of any, so long as the government publicly discloses such compensation.

A dispute exists between the FCC and certain state public utility commission advocates as to whether the FCC's preemptive rights over rates allows the FCC to prevent states from prohibiting the use of separate line items on wireless bills for charges that are not mandated by federal, state or local law. The FCC ruled in 2005 that states were preempted from requiring or prohibiting the use of non-misleading line items on wireless bills. In 2006, the United States Court of Appeals for the Eleventh Circuit vacated the FCC decision. Several parties have announced an intention to seek review of the appeals court decision in the U.S. Supreme Court. The outcome of this case, which we are unable to predict at this time, could affect the extent to which our CMRS services are subject to state regulations that may cause us to incur additional costs.

The California Public Utilities Commission, or CPUC, in early 2006 adopted consumer protection rules replacing an earlier consumer bill of rights. The new consumer bill of rights applies to "telecommunications services" subject to the CPUC's jurisdiction they do not replace and only supplement existing requirements that carriers have under federal and state law, tariffs, other orders and decisions of the FCC or the CPUC, and FCC requirements. The consumer bill of rights establishes seven rights (freedom of choice, disclosure, privacy, public participation and enforcement, accurate bills and dispute resolution, nondiscrimination, and public safety) and also includes rules on CPUC staff requests for information; worker identification; E-911 access; slamming rules (e.g., change of a subscriber's telecommunications service without authorization) with some modifications to existing slamming rules; and new cramming rules (e.g., placement of unauthorized charges on a telecommunications bill) that apply to all charges on a telephone bill (and eliminates the interim opt-in rules for non-communications relating services). The cramming rules generally reiterate requirements that already exist under the law with some additions. The consumer bill of rights does not create a private right of action or liability that would not exist absent the rules. We have reviewed the consumer bill of rights and believe that we are in compliance. We cannot give any assurance that the consumer bill of rights will not cause us to spend additional funds or complicate our marketing and sales programs which may have a material adverse impact on our operations in California.

We cannot assure you that any state or local regulatory requirements currently applicable to our systems will not be changed in the future or that regulatory requirements will not be adopted in those

states and localities which currently have none. Such changes could impose new obligations on us that would adversely affect our operating results.

### **Future Regulation**

From time to time, federal or state legislators propose legislation and federal or state regulators propose regulations that could affect us, either beneficially or adversely. We cannot assure you that federal or state governments will not enact legislation or that the FCC or other federal or state regulator will not adopt regulations or take other action that might adversely affect us. Changes such as the FCC allocating additional radio spectrum for services competing with our business or granting existing licensees of other services flexibility to offer mobile wireless services could adversely affect our operating results.

### **Legal Proceedings**

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 continued infringement of such patent. On August 3, 2006, we (i) answered the complaint, (ii) raised a number of affirmative defenses, and (iii) together with two related entities, counterclaimed against Leap and several related entities and certain current and former employees of Leap and certain of its related entities, including Leap's CEO. We have also tendered Leap's claims to the manufacturer of our network infrastructure equipment for indemnity and defense. In our counterclaims, we claim that we do not infringe any valid or enforceable claim of the '497 Patent. Certain of the Leap defendants, including its CEO, answered our counterclaims on October 13, 2006. In its answer, Leap and its CEO denied our allegations and asserted affirmative defenses to our counterclaims. We plan to vigorously defend against Leap's claims relating to the '497 Patent.

On August 3, 2006, we filed a separate action in the United States District Court for the Northern District of Texas, Dallas Division, Civil Action No. 3-06CV1399-D, seeking a declaratory judgment that Leap's U.S. Patent No. 6,959,183 "*Improved Operations Method for Providing Wireless Communication Services and Network and System for Delivering Same*" (a different patent from the one that is the subject of Leap's infringement action against us) is invalid and is not being infringed by us. Leap responded to our complaint on October 13, 2006 by filing a motion to dismiss our complaint for lack of subject matter jurisdiction or, in the alternative, that the action be transferred to the United States District Court for the Eastern District of Texas, Marshall Division where Leap has brought suit against us in connection with the '497 Patent. We have responded to this motion to dismiss and are awaiting a decision from the court.

On August 15, 2006, we filed a separate action in the California Superior Court, Stanislaus County, Case No. 382780, against Leap for unfair competition, misappropriation of trade secrets, interference with contracts, breach of contract, intentional interference with prospective business advantage, and trespass. In this suit we seek monetary and punitive damages. Leap responded to our complaint on October 13, 2006 by filing a motion requesting that the Court stay the action pending the outcome of the action on the '497 Patent. The court denied Leap's motion and Leap sought review of this decision from the court of appeals. Leap's appeal was denied by the court of appeals on December 15, 2006.

On September 22, 2006, Royal Street filed a separate action in the United States District Court for the Middle District of Florida, Tampa Division, Civil Action No. 8:06-CV-01754-T-23TBM, seeking a declaratory judgment that Leap's '497 Patent is invalid and not being infringed upon by Royal Street.

Leap responded to Royal Street's complaint by filing a motion to dismiss Royal Street's complaint for lack of subject matter jurisdiction or, in the alternative, that the action be transferred to the United States District Court for the Eastern District of Texas, Marshall Division where Leap has brought suit against us under the same patent. Royal Street has responded to this motion.

If Leap were successful in its claim for injunctive relief, we could be enjoined from operating our business in the manner we currently operate, which could require us 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 were 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.

In addition, we are involved in litigation from time to time that we consider to be in the normal course of business. We are not currently party to any other pending legal proceedings that we believe would, individually or in the aggregate, have a material adverse effect on our financial condition or results of operations.

## MANAGEMENT

## Executive Officers and Directors

The following table sets forth information concerning our executive officers and directors, including their ages, as of January 3, 2007.

Name	Age	Position
Roger D. Linquist	68	President, Chief Executive Officer and Chairman of the Board of Directors
J. Braxton Carter	48	Senior Vice President and Chief Financial Officer
Douglas S. Glen	49	Senior Vice President, Corporate Operations
Thomas C. Keys	48	Senior Vice President, Market Operations, West
Christine B. Kornegay	43	Vice President, Controller and Chief Accounting Officer
Malcolm M. Lorang	73	Senior Vice President and Chief Technology Officer
John J. Olsen	50	Vice President and Chief Information Officer
Mark A. Stachiw	45	Senior Vice President, General Counsel and Secretary
Keith D. Terrieri	42	Vice President, Finance and Treasurer
Robert A. Young	56	Executive Vice President, Market Operations, East
W. Michael Barnes	64	Director
C. Kevin Landry	62	Director
Arthur C. Patterson	62	Director
James N. Perry, Jr.	46	Director
John Sculley	67	Director
Walker C. Simmons	35	Director
James F. Wade	50	Director

*Roger D. Linquist* co-founded MetroPCS Communications and has served as our President, Chief Executive Officer, and chairman of the Board of Directors of MetroPCS Communications since its inception and its Secretary from inception through October 2004. In 1989, Mr. Linquist founded PageMart Wireless (now USA Mobility), a U.S. paging company. He served as PageMart's Chief Executive Officer from 1989 to 1993, and as Chairman from 1989 through March 1994, when he resigned to form the company. Mr. Linquist served as a director of PageMart Wireless from June 1989 to September 1997, and was a founding director of the Cellular Telecommunications and Internet Association. Mr. Linquist is the father of Corey A. Linquist, our Vice President and General Manager, Sacramento; father of Todd C. Linquist, Staff Vice President of Wireless Data Services; father-in-law of Michelle Linquist, Director of Logistics; and father-in-law of Phillip R. Terry, our Vice President, Corporate Marketing.

*J. Braxton Carter* became MetroPCS Communications' Senior Vice President and Chief Financial Officer in March 2005. Previously, Mr. Carter served as our Vice President, Corporate Operations from February 2001 to March 2005. Prior to joining MetroPCS Communications, Mr. Carter was Chief Financial Officer and Chief Operating Officer of PrimeCo PCS, the successor entity of PrimeCo Personal Communications formed in March 2000. He held various senior management positions with PrimeCo Personal Communications, including Chief Financial Officer and Controller, from 1996 until March 2000. Mr. Carter also has extensive senior management experience in the retail industry and spent ten years in public accounting.

*Douglas S. Glen* became MetroPCS Communications' Senior Vice President, Corporate Operations in June 2006. Prior to joining us, Mr. Glen served as the Vice President of Wireless Solutions and Business Development at BearCom from October 2004 to June 2006. He led the initiative at BearCom to launch new wireless broadband enterprise solutions through a national direct sales force. Before joining BearCom in 2004, from September 2002 to November 2003, Mr. Glen was the Senior Vice President and Chief Operating Officer of WebLink Wireless Inc. (formerly PageMart, Inc.) directing numerous operations of the company including sales, business development, network services,

information technology, distribution, customer service, and marketing departments. From July 2001 to September 2002, Mr. Glen was Senior Vice President and Chief Network Officer of Weblink Wireless Inc., directing the planning, engineering and operations of the company's wireless messaging network. From November 2000 to July 2001, he served as Weblink Wireless Inc.'s Vice President, Business Sales Division, overseeing the sales and customer care operations for many of the company's strategic business units, including national accounts, field sales, resellers and telemetry.

*Thomas C. Keys* became MetroPCS Communications' Senior Vice President, Market Operations, West in January 2007. Previously, Mr. Keys served as our Vice President and General Manager, Dallas from April 2005 until January 2007. Prior to joining our company, Mr. Keys served as the President and Chief Operating Officer for VCP International Inc., a Dallas-based wholesale distributor of wireless products, from July 2002 to April 2005. Prior to joining VCP International Inc., Mr. Keys served as the Senior Vice President, Business Sales for Weblink Wireless Inc. (formerly PageMart, Inc.) from March 1999 to June 2002, which included leading and managing the national sales and distribution efforts, and in other senior management positions with Weblink Wireless Inc. from January 1993 to March 1999.

*Christine B. Kornegay* joined MetroPCS Communications as Vice President, Controller and Chief Accounting Officer in January 2005. Previously, Ms. Kornegay served as Vice President of Finance and Controller for Allegiance Telecom, Inc. from January 2001 to June 2004. Ms. Kornegay was an officer of Allegiance Telecom, Inc. when it initiated bankruptcy proceedings in May 2003. Prior to joining Allegiance Telecom, Inc. in January 2001, Ms. Kornegay held various accounting and finance roles with AT&T Wireless Services from June 1994 through January 2001 and is also a certified public accountant.

*Malcolm M. Lorang* co-founded MetroPCS Communications and became our Senior Vice President and Chief Technical Officer in January 2006. Previously, Mr. Lorang served as our Vice President and Chief Technical Officer from our inception to January 2006. Prior to joining MetroPCS Communications, Mr. Lorang served as Vice President of Engineering for PageMart Wireless from 1989 to 1994.

*John J. Olsen* joined MetroPCS Communications as Vice President and Chief Information Officer in April 2006. Mr. Olsen was formerly the Vice President and Chief Technology Officer at GTESS Corporation and was responsible for GTESS' core technology products and information technology services. Prior to joining GTESS in May 2004, Mr. Olsen held senior information technology positions with Sprint Corporation focused on Software/Product Development for Sprint's consumer business and Sprint's nationwide technology infrastructure. From December 1997 through August 2001, Mr. Olsen was Vice President of Information Services and Chief Information Officer at NEC Business Network Solutions. Mr. Olsen began his information technology career in the U.S. Air Force at the School of Aerospace Medicine and spent 2 years as a Senior Consultant at General Electric, Aerospace Division.

*Mark A. Stachiw* became MetroPCS Communications' Senior Vice President, General Counsel and Secretary in January 2006. Previously, Mr. Stachiw served as our Vice President, General Counsel and Secretary from October 2004 until January 2006. Prior to joining MetroPCS Communications, Mr. Stachiw served as Senior Vice President and General Counsel, Allegiance Telecom Company Worldwide for Allegiance Telecom, Inc. from September 2003 to June 2004, and as Vice President and General Counsel, Allegiance Telecom Company Worldwide from March 2002 to September 2003. Mr. Stachiw was an officer of Allegiance Telecom, Inc. when it initiated bankruptcy proceedings in May 2003. Prior to joining Allegiance Telecom, Inc., from April 2001 through March 2002, Mr. Stachiw was Of Counsel at Paul, Hastings, Janofsky and Walker, LLP, and represented national and international telecommunications firms in regulatory and transactional matters. Before joining Paul Hastings, Mr. Stachiw was the chief legal officer for Verizon Wireless Messaging Services (formerly known as AirTouch Paging and PacTel Paging) and was the Vice President and General Counsel from April 2000

through March 2001, and Vice President, Senior Counsel and Secretary from April 1995 through April 2000.

*Keith D. Terreri* joined MetroPCS Communications as Vice President Finance and Treasurer in July 2006. Prior to joining us, Mr. Terreri served as the Vice President, Finance and Treasurer of Valor Communications Group, Inc. from July 2001 to July 2006. Mr. Terreri was Vice President, Finance and Treasurer of RCN Corporation from December 1999 to June 2001 and Director of Finance from January 1998 to December 1999. Mr. Terreri has over 19 years experience in finance and nine in the telecommunications industry. Mr. Terreri originally began his career at Deloitte & Touche LLP, and is also a certified public accountant.

*Robert A. Young* became MetroPCS Communications' Executive Vice President, Market Operations, East in January 2007. Previously Mr. Young served as our Executive Vice President, Market Operations from May 2001 until January 2007. Prior to joining our company, Mr. Young served as President of the Great Lakes Area of Verizon Wireless from February 2001 until April 2001, and as President of Verizon Wireless Messaging Services (formerly known as AirTouch Paging and PacTel Paging) from April 2000 until January 2001. Prior to joining Verizon Wireless Messaging Services, Mr. Young held various positions with PrimeCo Personal Communications, including Vice President Customer Care from April 1998 until April 2000, President Independent Region from October 1997 until October 1998, and Vice President/General Manager Houston from May 1995 until September 1997. He also chaired PrimeCo's Information Technology Steering Committee and was a member of its Senior Leadership Team.

*W. Michael Barnes*, a director of MetroPCS Communications since May 2004, held several positions at Rockwell International Corporation (now Rockwell Automation, Inc.) between 1968 and 2001, including Senior Vice President, Finance & Planning and Chief Financial Officer from 1991 through 2001. Mr. Barnes also serves as a director of Advanced Micro Devices, Inc.

*C. Kevin Landry*, a director of MetroPCS Communications since August 2005, currently serves as the Chief Executive Officer of TA Associates, Inc. which through its funds, is an investor in MetroPCS Communications. TA Associates, founded in 1968, is one of the oldest and largest private equity firms in the world and focuses on investing in private companies and helping management teams build their businesses. Mr. Landry previously served as a director on the board of directors of Alex Brown Incorporated, Ameritrade Holding Corporation, Biogen, Continental Cablevision, Instinet Group, Keystone Group, SBA Communications, Standex International Corporation and the National Venture Capital Association.

*Arthur C. Patterson*, a director of MetroPCS Communications since its inception, is a Founding General Partner of Accel Partners, a venture capital firm, located in Palo Alto, California. Affiliates of Accel Partners are investors in MetroPCS Communications. Mr. Patterson also serves as a director of iPass, Actuate and several privately held companies.

*James N. Perry, Jr.*, a director of MetroPCS Communications since August 2005, is a Managing Director of Madison Dearborn Partners, Inc., a Chicago-based private equity investing firm, where he specializes in investing in companies in the communications industry. From January 1993 to January 1999, Mr. Perry was a Vice President of Madison Dearborn Partners, Inc. An affiliate of Madison Dearborn Partners, Inc. is an investor in MetroPCS Communications. Mr. Perry also presently serves on the boards of directors of Band-X Limited, Cbeyond Communications, Inc., Cinemark, Inc., Intelstat Holdings Ltd., Madison River Telephone Company, LLC and Catholic Relief Services.

*John Sculley*, a director of MetroPCS Communications since its inception, has been a partner in Sculley Brothers, a private investment capital firm, since June 1994. Mr. Sculley is an investor in MetroPCS Communications. Mr. Sculley also serves on the boards of directors of InPhonic and several privately held companies.

*Walker C. Simmons*, a director of MetroPCS Communications since June 2006, joined Wachovia Capital Partners in 2000 and has been a partner since 2002. Before joining Wachovia Capital Partners, he worked as a Vice President with Bruckmann, Rosser, Sherrill & Co., Inc. Mr. Simmons also presently serves on the Board of Directors of American Community Newspapers, Heartland Publications, LLC, IntraLinks, Inc., Sonitrol, Inc., Three Eagles Communications and TMW Systems, Inc. Mr. Simmons also previously served as a director of MetroPCS Communications from December 2004 until March 2005, when he resigned. Mr. Simmons' resignation was not caused by a disagreement with MetroPCS Communications or management.

*James F. Wade*, a director of MetroPCS Communications since December 2006, has served as Managing Partner of M/C Venture Partners, a venture capital firm, since December 1998. M/C Venture Partners is an investor in MetroPCS Communications. Mr. Wade previously served as a director of MetroPCS Communications from March 2005 until May 2006, when he resigned and from November 2000 through December 2004 when he resigned. Mr. Wade currently serves on the boards of directors of Attenda, Ltd., Cavalier Telephone, Cleveland Unlimited, NuVox Communications and Texas 11 Acquisition LLC. Mr. Wade's previous resignations were not caused by a disagreement with MetroPCS Communications or management.

### **Board Composition**

Prior to the completion of this offering our directors will be divided into three classes serving staggered three-year terms. Class I, Class II and Class III directors will serve until our annual meeting of stockholders in 2007, 2008 and 2009, respectively. Upon expiration of the term of a class of directors, directors in that class will be eligible to be elected for a new three-year term at the annual meeting of stockholders in the year in which their term expires. This classification of directors could have the effect of increasing the length of time necessary to change the composition of a majority of our board of directors. In general, at least two annual meetings of stockholders will be necessary for stockholders to effect a change in a majority of the members of our board of directors. We currently have eight members and one vacancy on our board of directors.

### **Board Committees**

The standing committees of our board consist of an audit committee, a nominating and corporate governance committee, a compensation committee and a finance and planning committee.

*Audit Committee.* Our board of directors has established an audit committee of the board of directors. The members of the audit committee are currently Messrs. W. Michael Barnes, C. Kevin Landry and John Sculley. The responsibilities of the audit committee of the board of directors include, among other things:

overseeing, reviewing and evaluating our financial statements, the audits of our financial statements, our accounting and financial reporting processes, the integrity of our financial statements, our disclosure controls and procedures and our internal audit functions;

appointing, compensating, retaining and overseeing our independent accountants;

pre-approving permissible non-audit services to be performed by our independent accountants, if any, and the fees to be paid in connection therewith;

overseeing our compliance with legal and regulatory requirements and compliance with ethical standards adopted by us;

establishing and maintaining whistleblower procedures;

evaluating periodically our Code of Business Conduct and Ethics; and



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conducting an annual self-evaluation.

*Nominating and Corporate Governance Committee.* The members of our nominating and corporate governance committee are Messrs. Patterson and Perry. The responsibilities of the nominating and corporate governance committee include:

assisting in the process of identifying, recruiting, evaluating and nominating candidates for membership on our board of directors and the committees thereof;

developing processes regarding the consideration of director candidates recommended by stockholders and stockholder communications with our board of directors;

conducting an annual self-evaluation and assisting our board of directors and our other committees of the board of directors in the conduct of their annual self-evaluations; and

development and recommendation of corporate governance principles.

*Compensation Committee.* The members of our compensation committee are Messrs. Perry and Sculley. The responsibilities of the compensation committee of the board of directors include:

developing and reviewing general policy relating to compensation and benefits;

reviewing and evaluating the compensation discussion and analysis prepared by management;

evaluating the performance of the chief executive officer and reviewing and making recommendations to our board of directors concerning the compensation and benefits of our chief executive officer, our directors and our other corporate officers;

overseeing our chief executive officer's decisions concerning the performance and compensation of our other executive officers;

administering our stock option and employee benefit plans;

preparing an executive compensation report for publication in our annual proxy statement; and

conducting an annual self-evaluation.

*Finance and Planning Committee.* The members of our finance and planning committee are Messrs. Patterson, Landry and Perry. The responsibilities of the finance and planning committee include:

monitoring our present and future capital requirements and business opportunities;

overseeing, reviewing and evaluating our capital structure and our strategic planning and financial execution processes; and

making recommendations to our board regarding acquisitions, dispositions and our short and long-term operating plans.

**Code of Ethics**

Our board of directors has adopted a code of ethics which establishes the standards of ethical conduct applicable to all of our directors, officers, employees, consultants and contractors. The code of ethics addresses, among other things, competition and fair dealing, conflicts of interest, financial matters and external reporting, company funds and assets, confidentiality and corporate opportunity requirements and the process for reporting violations of the code of ethics, employee misconduct, conflicts of interest or other violations. Our code of ethics is publicly available on our website at [www.metropcs.com](http://www.metropcs.com). Any waiver of our code of ethics with respect to our chief executive officer, chief financial officer, controller or persons performing similar functions may only be authorized by our audit committee and will be disclosed as required by applicable law.

## EXECUTIVE COMPENSATION

### Compensation Discussion and Analysis

We provide what we believe is a competitive total compensation package to our executive management team through a combination of base salary, an annual cash incentive plan, a long-term equity incentive compensation plan and broad-based benefits programs.

We place significant emphasis on pay for performance-based incentive compensation programs, which make payments when certain company/team and individual goals are achieved and/or when our common stock price appreciates. This Compensation Discussion and Analysis explains our compensation philosophy, policies and practices with respect to our chief executive officer, chief financial officer, and the other three most highly-compensated executive officers, which are collectively referred to as the named executive officers.

### The Objectives of our Executive Compensation Program

Our compensation committee is responsible for establishing and administering our policies governing the compensation for our executive officers. Our executive officers are elected by our board of directors. The compensation committee is composed entirely of non-employee directors. See "Management Board Committees Compensation Committee."

Our executive compensation programs are designed to achieve the following objectives:

Attract and retain talented and experienced executives in the highly competitive and dynamic wireless communications industry;

Motivate and reward executives whose knowledge, skills and performance are critical to our success;

Align the interests of our executive officers and shareholders by motivating executive officers to increase shareholder value and rewarding executive officers when shareholder value increases;

Provide a competitive compensation package which is weighted heavily towards pay for performance, and in which total compensation is primarily determined by company/team and individual results and the creation of shareholder value;

Ensure fairness among the executive management team by recognizing the contributions each executive makes to our success;

Foster a shared commitment among executives by coordinating their company/team and individual goals; and

Compensate our executives to manage our business to meet our long-range objectives.

To assist management and the compensation committee in assessing and determining competitive compensation packages, the compensation committee engaged compensation consultants, Frederic W. Cook and Co, Inc. in 2005 and 2006 and Towers Perrin in 2006.

The compensation committee meets outside the presence of all of our executive officers, including the named executive officers, to consider appropriate compensation for our chief executive officer. For all other named executive officers, the committee meets outside the presence of all executive officers except our chief executive officer and our general counsel who recuses himself when the committee discusses his compensation. Mr. Linquist, our chief executive officer, or CEO, annually reviews each other named executive officer's performance with the committee and makes recommendations to the compensation committee with respect to the appropriate base salary, payments to be made under our annual cash incentive plan, or Bonus Opportunity Plan, and the grants of long-term equity incentive awards for all executive officers, excluding himself. Based in part on these recommendations from our

CEO and other considerations discussed below, the compensation committee approves the annual compensation package of our executive officers other than our CEO. The compensation committee also annually analyzes our CEO's performance and determines his base salary, Bonus Opportunity Plan award payout and stock option awards based on its assessment of his performance with input from the committee's consultants. The annual performance review of our executive officers are considered by the compensation committee when making decisions on setting base salary, targets for and payments under our Bonus Opportunity Plan and grants of long-term equity incentive awards. When making decisions on setting base salary, targets for and payments under our Bonus Opportunity Plan and initial grants of long-term equity incentive awards for new executive officers, the compensation committee considers the importance of the position to us, the past salary history of the executive officer and the contributions to be made by the executive officer to us. The compensation committee also reviews the analyses and recommendations of the executive compensation consultant retained by the committee and approves the recommendations with modifications as deemed appropriate by the compensation committee.

The compensation committee also reviews the annual performance of any parties related to the CEO and considers the recommendations of the related person's direct supervisor with respect to base salary, targets for and payments under our Bonus Opportunity Plan and grants of long-term equity incentive awards. The compensation committee reviews and approves these recommendations with modifications as deemed appropriate by the compensation committee.

We use the following principles to guide our decisions regarding executive compensation:

***Provide compensation opportunities targeted at market median levels.***

To attract and retain executives with the ability and the experience necessary to lead us and deliver strong performance to our shareholders, we strive to provide a total compensation package that is competitive with total compensation provided by our industry peer group.

We benchmark our salary and target incentive levels and practices as well as our performance results in relation to other comparable wireless communications industry companies and general industry companies of similar size in terms of revenue and market capitalization. We believe that this group of companies provides an appropriate peer group because they consist of similar organizations against whom we compete for executive talent. We annually review the companies in our peer group and add or remove companies as necessary to insure that our peer group comparisons are meaningful. Specifically, we use the following market data to establish our salary and target incentive levels:

Data in proxy statement filings from wireless communications companies that we believe are comparable to us based on revenue and market capitalization or are otherwise relevant, including:

Alltel Corp;

Centennial Communications Corp.;

Cingular Wireless LLC;

Dobson Communications Corp.;

Leap Wireless International Inc.;

Rural Cellular Corp;

Sprint Nextel Corp.;

SunCom PCS Holding;

United States Cellular Corp; and

Cellco Partnership d/b/a Verizon Wireless.

Published survey data from public and private companies with \$1 billion-\$5 billion in revenues and public and private telecommunications companies with greater than \$500 million in revenues.



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We target base salaries to result in annual salaries equal to the market median (50<sup>th</sup> percentile) for our peer group. We target total compensation at the 75<sup>th</sup> percentile of our peer group for our executives with outstanding performance achievement. To arrive at the 50<sup>th</sup> percentile for the base salaries of our named executive officers, we consider the median of the data gathered from proxy statements for the positions of the named executive officers in relation to the named executive officers of our peer group as well as the 50<sup>th</sup> percentile of data from published surveys for each position. If our performance on company/team and individual goals exceeds targeted levels, our executives have the opportunity, through our Bonus Opportunity Plan and long-term equity incentive compensation plans, to receive total compensation above the median of market pay. We believe our executive compensation packages are reasonable when considering our business strategy, our compensation philosophy and the competitive market pay data.

For each executive officer, we consider the relevance of data of our peer group, considering:

Our business need for the executive officer's skills;

The contributions that the executive officer has made or we believe will make to our success;

The transferability of the executive officer's managerial skills to other potential employers;

The relevance of the executive officer's experience to other potential employers, particularly in the telecommunications industry; and

The readiness of the executive officer to assume a more significant role with another potential employer.

***Require performance goals to be achieved or common stock price to increase in order for the majority of the target pay levels to be earned.***

Our executive compensation program emphasizes pay for performance. Performance is measured based on shareholder return as well as achievement of company/team and individual performance goals established by our board of directors relative to our board of director approved annual business plan. The goals for our company/team and individual measures are established so that target attainment is not assured. The attainment of payment for performance at target or above will require significant effort on the part of our executives.

The compensation package for our executive officers includes both cash and equity incentive plans that align an executive's compensation with our short-term and long-term performance goals and objectives.

Annual cash incentive awards under our Bonus Opportunity Plan are earned based on performance measures that are aligned with our business strategy and are approved by the board of directors at the beginning of each fiscal year.

For 2005, the Bonus Opportunity Plan award was based on the following performance measures:

Achievement of operating targets including:

Gross margin;

Adjusted EBITDA per average subscriber;

Capital expenditures per ending subscriber at year-end;

Cost per gross addition;

Average monthly churn; and

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Certain milestones in construction of the Expansion Markets, or new market % of build;

Individual performance measures pertaining to remediation of certain material weaknesses in financial reporting; and

Individual performance measures, such as achievement of strategic objectives, including efficient expansion into new markets and demonstration of our core values.

For 2006, the Bonus Opportunity Plan award is based on the following performance measures:

Achievement of operating targets including:

Gross margin;

Adjusted EBITDA per average subscriber;

Capital expenditures per ending subscriber at year-end; and

New market % of build.

Implementation of financial controls and Sarbanes-Oxley Act compliance; and

Individual performance measures, such as achievement of strategic objectives, and demonstration of our core values.

Gross margin is defined as gross revenues less Enhanced 911 revenues, Federal Universal Service Fund revenues and the total cost of equipment.

Adjusted EBITDA per average subscriber is determined by dividing Adjusted EBITDA by the sum of the average monthly number of customers during the year.

Capital expenditures per ending subscriber is determined by dividing the total balance of property, plant and equipment and microwave relocation costs at the end of the year by (b) the number of customers at the end of the year.

Cost per gross addition 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 year by (b) gross customer additions during the year.

Average monthly churn is determined by dividing (a) the number of customers who have been disconnected from our system during the year less the number of customers who have reactivated service by (b) the sum of the average monthly number of customers during the year.

The new market percent of build measure is intended to provide focus on the successful launch of the new market for the management team during the market construction period. Each year, milestones are established specific to new markets such as number of cell sites constructed and payout is determined by percent achievement of these objectives across all new markets.

In addition to the components listed above, the team performance measure has a discretionary component. This component is intended to capture how the market has performed in areas that are not quantified in the major metrics. The determination and payout of the discretionary component is based on general performance in other categories and provides recognition for contributions made to the overall health of the business.



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Our long-term equity incentive program for 2005 and 2006 consists of awards of options to acquire our common stock which require growth in our common stock price in order for the executive officer to realize any value. We award stock options to align the interests of the executive officers to the interests of the shareholders through appreciation of our common stock price.

*Offer the same comprehensive benefits package to all full-time employees.*

We provide a competitive benefits package to all full-time employees which includes health and welfare benefits, such as medical, dental, vision care, disability insurance, life insurance benefits, and a 401(k) savings plan. We have no structured executive perquisite benefits (e.g., club memberships or company vehicles) for any executive officer, including the named executive officers, and we currently do not provide any deferred compensation programs or supplemental pensions to any executive officer, including the named executive officers.

*Provide fair and equitable compensation.*

We provide a total compensation program that we believe will be perceived by both our executive officers and our shareholders as fair and equitable. In addition to conducting analyses of market pay levels and considering individual circumstances related to each executive officer, we also consider the pay of each executive officer relative to each other executive officer and relative to other members of the management team. We have designed the total compensation programs to be consistent for our executive management team.

**Certain Policies of our Executive Compensation Program**

We have adopted the following material policies related to our executive compensation program:

**Allocation between long-term and currently paid out compensation:** The compensation we currently pay consists of base pay and annual cash incentive compensation in the form of the Bonus Opportunity Plan Payments. The long-term compensation consists entirely of awards of stock options pursuant to our Second Amended and Restated 1995 Stock Option Plan, as amended, or the 1995 Plan, and our 2004 Equity Incentive Compensation Plan, as amended, or the 2004 Plan. The allocation between long-term and currently paid out compensation is based on an analysis of how our peer companies use long-term and currently paid compensation to pay their executive officers.

**Allocation between cash and non-cash compensation:** It is our policy to allocate all currently paid compensation in the form of cash and all long-term compensation in the form of awards of options to purchase our common stock. We consider competitive market analyses when determining the allocation between cash and non-cash compensation.

**Return of incentive pay:** We have implemented a policy for the adjustment or recovery of awards or payments if performance measures upon which they are based are materially restated or otherwise adjusted in a manner that will reduce the size of an award or payment. This policy includes the return by any executive officer any compensation based upon performance measures that require material restatement which are caused by such executive's intentional misconduct or misrepresentation.

**Our Executive Compensation Programs**

Overall, our executive compensation programs are designed to be consistent with the objectives and principles set forth above. The basic elements of our executive compensation programs are summarized in the table below, followed by a more detailed discussion of each compensation program.

Element	Characteristics	Purpose
Base salary	Fixed annual cash compensation; all executives are eligible for periodic increases in base salary based on performance; targeted at the median market pay level.	Keep our annual compensation competitive with the market for skills and experience necessary to meet the requirements of the executive's role with us.
Bonus Opportunity Plan awards	Performance-based annual cash incentive earned based on company/team and individual performance against target performance levels; targeted at the median market pay level.	Motivate and reward for the achievement and over-performance of our critical financial and strategic goals. Amounts earned for achievement of target performance levels based on our annual budget is designed to provide a market-competitive pay package at median performance; potential for lesser or greater amounts are intended to motivate participants to achieve or exceed our financial performance goals and to not reward if performance goals are not met.
Long-term equity incentive plan awards (stock options)	Performance-based equity award which has value to the extent our common stock price increases over time; targeted at the median market pay level and/or competitive practices at peer companies.	Align interest of management with shareholders; motivate and reward management to increase the shareholder value of the company over the long term. Vesting based on continued employment will facilitate retention; amount realized from exercise of stock options rewards increased shareholder value of the company; provides change in control protection.
Retirement savings opportunity	Tax-deferred plan in which all employees can choose to defer compensation for retirement. We provide no matching or other contributions; we do not allow employees to invest these savings in company stock.	Provide employees the opportunity to save for their retirement. Account balances are affected by contributions and investment decisions made by the employee.
Health & welfare benefits	Fixed component. The same/comparable health & welfare benefits (medical, dental, vision, disability insurance and life insurance) are available for all full-time employees.	Provides benefits to meet the health and welfare needs of employees and their families.

All pay elements are cash-based except for the long-term equity incentive program, which is an equity-based (stock options) award. We consider market pay practices and practices of peer companies in determining the amounts to be paid, what components should be paid in cash versus equity, and how much of a named executive officer's compensation should be short-term versus long-term.

Our executive officers, including the named executive officers, are assigned to pay grades, determined by comparing position-specific duties and responsibilities with the market pay data and the internal structure. Each pay grade has a salary range with corresponding annual and long-term incentive award opportunities. We believe this is the most transparent and flexible approach to achieve the objectives of the executive compensation program.

Compensation opportunities for our executive officers, including our named executive officers, are designed to be competitive with peer companies. We believe that a substantial portion of each named executive officer's compensation should be in performance-based pay.

In determining whether to increase or decrease compensation to our executive officers, including our named executive officers, annually we take into account the changes (if any) in the market pay levels based on our peer group, the contributions made by the executive officer, the performance of the executive officer, the increases or decreases in responsibilities and roles of the executive officer, the business needs for the executive officer, the transferability of managerial skills to another employer, the relevance of the executive officer's experience to other potential employers and the readiness of the executive officer to assume a more significant role with another organization. In addition, we consider the executive officer's current base salary in relation to the median pay of peer group companies so that for the same individual performance, an executive officer will receive larger increases when below median and smaller increases when at or above median.

In general, compensation or amounts realized by executives from prior compensation from us, such as gains from previously awarded stock options or options awards, are not taken into account in setting other elements of compensation, such as base pay, Bonus Opportunity Plan payments, or awards of stock options under our long-term equity incentive program. With respect to new executive officers, we take into account their prior base salary and annual cash incentive, as well as the contribution expected to be made by the new executive officer, the business needs and the role of the executive officer with us. We believe that our executive officers should be fairly compensated each year relative to market pay levels of our peer group and internal equity among executive officers. Moreover, we believe that our long-term incentive compensation program furthers our significant emphasis on pay for performance compensation.

### **Annual Cash Compensation**

To attract and retain executives with the ability and the experience necessary to lead us and deliver strong performance to our shareholders, we provide a competitive total compensation package. Base salaries are targeted at the market median (50<sup>th</sup> percentile) of our peer group, while total compensation is targeted at the 75<sup>th</sup> percentile of our peer group, considering individual performance and experience, to ensure that each executive is appropriately compensated.

#### ***Base Salary***

Annually we review salary ranges and individual salaries for our executive officers. We establish the base salary for each executive officer based on consideration of median pay levels of our peer group and internal factors, such as the individual's performance and experience, and the pay of others on the executive team.

We consider market median pay levels among individuals in comparable positions with transferable skills within the wireless communications industry and comparable companies in general industry. When establishing the base salary of any executive officer, we also consider business requirements for certain skills, individual experience and contributions, the roles and responsibilities of the executive and other factors. We believe competitive base salary is necessary to attract and retain an executive management team with the appropriate abilities and experience required to lead us. Approximately 25% to 45% of an executive officer's total compensation, depending on the executive's role with us.

The base salaries paid to our named executive officers are set forth below in the Summary Compensation Table. See " Summary of Compensation." For the fiscal year ended December 31, 2005, cash compensation to our named executive officers was approximately \$1.5 million, with our chief executive officer receiving approximately \$435,000 of that amount. We believe that the base salary paid

to our executive officers during 2005 achieves our executive compensation objectives, compares favorably to our peer group and is within our target of providing a base salary at the market median.

In 2006, adjustments to our executive officers' total compensation were made based on an analysis of current market pay levels of peer companies and in published surveys. In addition to the pay levels of our peer group, factors taken into account in making any changes for 2006 included the contributions made by the executive officer, the performance of the executive officer, the role and responsibilities of the executive officer and the relationship of the executive officer's base pay to the base salary of our other executives.

#### ***Bonus Opportunity Plan Awards***

Consistent with our emphasis on pay for performance incentive compensation programs, we have established a written Bonus Opportunity Plan pursuant to which our executive officers, including our named executive officers, are eligible to receive Bonus Opportunity Plan awards based upon our performance against annual established performance targets, including financial measures and other factors, including individual performance. The Bonus Opportunity Plan is important to focus our executive officer's efforts and reward executive officers for annual operating results that help create value for our shareholders. The Bonus Opportunity Plan award represents 15% to 30% of a named executive officer's total compensation, depending on the executive's role.

Incentive award opportunities are targeted to result in Bonus Opportunity Plan payments equal to the market median of our peer group assuming our target business objectives are achieved. If the target level for the performance goals is exceeded, executives have an opportunity to earn cash incentive awards above the median of the market of our peer group. If the target levels for the performance goals are not achieved, executives may earn less or no Bonus Opportunity Plan payments. In 2005, our named executive officers exceeded the target business objectives which result in achieving 140.9% for the Bonus Opportunity Plan. The incentive plan targets for the Bonus Opportunity Plan are determined through our annual planning process, which generally begins in October before the beginning of the fiscal year.

For 2005, the financial measures used to determine annual incentive cash payments included gross margin, Adjusted EBITDA per average subscriber, capital expenditures per ending subscriber, cost per gross addition, average monthly churn and new market build-out. See " 2005 Financial Measures." The cost per gross addition measures the financial effort required to add a new subscriber. The average monthly churn is designed to measure subscriber disconnections and reconnections. We changed the measures in 2006 to be more straight-forward and easier to understand. Gross margin, Adjusted EBITDA per average subscriber fully capture the cost per gross addition and average monthly churn impact that were specific components of the 2005 plan. For 2006, the financial measures used to determine annual cash payments included gross margin, Adjusted EBITDA per average subscriber, capital expenditures per ending subscriber and new market build-out performance. See " 2006 Financial Measures."

The gross margin measure is designed to reflect our strategy of developing new markets, growing top line revenue, and expanding our market share in existing markets. To ensure we efficiently develop and expand our markets, the Adjusted EBITDA per average subscriber measure motivates our executives to manage our costs and to take into account the appropriate level of expenses expected with our growth in number of subscribers. The capital expenditures per ending subscriber measure is designed to ensure that the appropriate level of investment is being made in our networks consistent with our growth. The new market percent of build measure exists to provide focus during the market construction period. The discretionary component provides recognition for contributions made to the overall health of the business and is intended to capture how the market has performed in areas that are not quantified in the major metrics.

A business plan which contains annual financial and strategic objectives is developed each year by management, reviewed and recommended by the finance and planning committee, presented to the board of directors with such changes that are deemed appropriate by the finance and planning committee, and are ultimately reviewed and approved by our board of directors with such changes that are deemed appropriate by the board of directors. The business plan objectives include our budgeted results for the annual incentive performance measures, such as penetrating existing markets and securing and developing new markets, and include all of our performance goals. The Bonus Opportunity Plan is presented to the compensation committee for review, and ultimately to the board of directors for their approval with such modifications deemed appropriate by the board of directors.

Bonus Opportunity Plan awards are determined at year-end based on our performance against the board of directors-approved Bonus Opportunity Plan targets. The compensation committee also exercises discretion adjusting awards based on its consideration of each executive officer's individual performance and for each executive officer other than the chief executive officer, based on a review of such executives performance as communicated to the compensation committee by the chief executive officer, and our overall performance during the year. The incentive plan award amounts of all executive officers, including the named executive officers, must be reviewed and recommended by the compensation committee for approval and ultimately must be approved by the board of directors before being paid. The committee and the board of directors may modify the Bonus Opportunity Plan awards prior to their payment.

### 2005 Financial Measures

Shown as a percentage of the total Bonus Opportunity Plan award at target in the following table, is the weighting of the individual measures as well as the financial measures used to determine award payments to the named executive officers for the fiscal year ended December 31, 2005.

2005 Measures		CEO	CFO	EVP Market Ops	Other NEOs
Company/team performance	Gross Margin	50%	60%	67%	75%
	Adjusted EBITDA per average subscriber				
	Capital expenditures per ending subscriber				
	Cost per gross addition				
	Average monthly churn				
	New market % of build				
	Discretionary				
Individual objectives remediation		20%	20%	16.5%	0%
Individual performance		30%	20%	16.5%	25%

**2006 Financial Measures**

Shown as a percentage of the total payment opportunity in the following table, is the weighting of the individual measures as well as the financial measures used to determine award payments to the named executive officers for the fiscal year ended December 31, 2006.

2006 Measures		CEO	CFO	EVP Market Ops	Other NEOs
Company/team performance	Gross Margin	70%	60%	70%	70%
	Adjusted EBITDA per average subscriber				
	Capital expenditures per ending subscriber				
	New market % of build				
	Discretionary				
Financial Controls/Sarbanes-Oxley Act compliance		20%	20%	20%	15%
Individual performance		10%	20%	10%	15%

In addition to changes to our financial measures to make our plan more straight-forward and easier to understand, the non-financial measures were adjusted in 2006 to reflect the change of focus on our internal initiatives from remediation of certain material weaknesses in financial reporting in 2005 to financial controls and Sarbanes-Oxley compliance in 2006. Likewise, individual performance measures of each executive officer were also reviewed and updated as deemed appropriate by our chief executive officer and the compensation committee to reflect the focus of our 2006 initiatives.

**Bonus Opportunity Plan Payout**

We have developed goals for our performance measures that would result in varying levels of Bonus Opportunity Plan payments. If the maximum performance on these goals is met, our executive officers have the opportunity to receive a maximum payment equal to two times their target award. The target and maximum payment opportunities under the 2005 and 2006 annual Bonus Opportunity Plans were set based on competitive market pay levels of our peer group and are shown as a percentage of annual base salary at corresponding levels of performance against our goals as shown in the following table:

Officer	2005 Bonus Opportunity Plan payout level based on goal achievement		2006 Bonus Opportunity Plan payout level based on goal achievement	
	At 100% (Target)	Maximum performance	At 100% (Target)	Maximum performance
CEO	75% of base salary	150% of base salary	100% of base salary	200% of base salary
CFO	55% of base salary	110% of base salary	75% of base salary	150% of base salary
EVP, Market Ops	55% of base salary	110% of base salary	75% of base salary	150% of base salary
SVP, General Counsel and Secretary	45% of base salary	90% of base salary	65% of base salary	130% of base salary
SVP, CTO	45% of base salary	90% of base salary	65% of base salary	130% of base salary

The actual annual incentive payments made to our named executive officers pursuant to our Bonus Opportunity Plan for the fiscal year ended December 31, 2005 are set forth below in the Summary Compensation Table. See " Summary of Compensation." We believe that the annual incentive payments made to our named executive officers for the fiscal year ended December 31, 2005 achieved our executive compensation objectives, compare favorably to our peer group and are within our target of providing total compensation at the 75<sup>th</sup> percentile of the market with outstanding performance achievement.

### **Long-term Equity Incentive Compensation**

We award long-term equity incentive grants to executive officers, including the named executive officers, as part of our total compensation package. These awards are consistent with our pay for performance principles and align the interests of the executive officers to the interests of our shareholders. The compensation committee reviews and recommends to the board of directors the amount of each award to be granted to each named executive officer and the board of directors approves each award. Long-term equity incentive awards are made pursuant to our 1995 Plan, and in 2005 and 2006, our 2004 Plan. The 1995 Plan terminated in November 2005 and no further awards can be made under the 1995 Plan, but all options granted before November 2005 remain valid in accordance with their terms.

Our long-term equity incentive compensation is currently exclusively in the form of options to acquire our common stock. The value of the stock options awarded is dependent upon the performance of our common stock price. While the 2004 Plan allows for other forms of equity compensation, the compensation committee and management believe that currently stock options are the appropriate vehicle to provide long-term incentive compensation to our executive officers. Other types of long-term equity incentive compensation may be considered in the future as our business strategy evolves.

Stock option awards provide our executive officers with the right to purchase shares of our common stock at a fixed exercise price for a period of up to ten years under the 2004 Plan and fifteen years under the 1995 Plan. Stock options are earned on the basis of continued service to us and generally vest over four years, beginning with one-fourth vesting one year after the date of grant, then pro-rata vesting monthly thereafter. See " Employment Agreements, Severance Benefits and Change in Control Provisions" for a discussion of the change in control provisions related to stock options.

The exercise price of each stock option granted in 2005 and 2006 is based on the fair market value of our common stock on the grant date. The exercise price of stock options was determined by our board of directors based on a valuation performed by an independent outside valuation consultant. With the exception of the grant in December 2006, the valuation was performed quarterly. The award in December 2006 was based on a valuation performed in December 2006. Following our initial public offering, all options will continue to be granted with an exercise price equal to the fair market value of our common stock on the date of grant, but fair market value will be defined as the closing market price of a share of our common stock on the date of grant. We do not have any program, plan or practice of setting the exercise price based on a date or price other than the fair market value of our common stock on the grant date.

Our named executive officers and other employees receive an initial grant of stock options which are generally granted at the last board of directors meeting in the quarter in which their employment commences. Our executive officers and other employees are eligible to receive annual awards of stock options beginning in the year in which they reach their second anniversary of their hire date. Individual determinations are made with respect to the number of stock options granted to executive officers. In making these determinations, we consider our performance relative to the financial and strategic objectives set forth in the annual business plan, the previous year's individual performance of each executive officer, and the market pay levels for the executive officer. Annual grants are targeted at the



median level of market pay practices and market pay levels for the executive officer, but may be adjusted based on individual performance. This analysis is also used to determine any new hire or promotion-related grants that may be made during the year. Based on individual performance and contributions to our overall performance, the 2005 and 2006 stock option grants awarded to the named executive officers were at approximately the 75<sup>th</sup> percentile of market pay level for each named executive officer.

Like our other pay components, long-term equity incentive award grants are determined based on an analysis of competitive market levels of our peer group. Long-term equity incentive grant ranges have been established which result in total compensation levels ranging from median to above median of market pay levels of our peer group. The number of options granted to a named executive officer is intended to reward prior year's individual performance.

Generally, we do not consider an executive officer's stock holdings or previous stock option grants in determining the number of stock options to be granted. We believe that our executive officers should be fairly compensated each year relative to market pay levels of our peer group and relative to our other executive officers. Moreover, we believe that our long-term incentive compensation program furthers our significant emphasis on pay for performance compensation. However, we undertook an analysis of executive officer stock holdings in determining the appropriate one-time stock option grant, as discussed below, made prior to our initial public offering. We do not have any requirement that executive officers hold a specific amount of our common stock or stock options.

Although the compensation committee is the plan administrator for the 2004 Plan, all awards of stock options under the 1995 Plan and the 2004 Plan are recommended by the compensation committee and approved by our board of directors. For 2005 and 2006, the board of directors made all annual option grants to eligible employees on a single date each year, with exceptions for new hires, promotions and special grants. Typically, the board of directors has granted annual awards at its regularly scheduled meeting in March. The timing of the grants is consistent each year and is not coordinated with the public release of nonpublic material information.

While the vast majority of stock option awards to our executive officers have been made pursuant to our annual grant program or in connection with their hiring or promotion, the compensation committee retains discretion to make stock option awards to executive officers at other times, including in connection with the hiring of a new executive officer, the promotion of an executive officer, to reward executive officers, for retention purposes or for other circumstances recommended by management or the compensation committee. The exercise price of any such grant is the fair market value of our stock on the grant date.

In December 2006, in recognition of efforts related to our pending initial public offering and to align executive ownership with us, we made a special stock option grant to our named executive officers and certain other eligible employees. We granted stock options to purchase an aggregate of 2,295,000 shares of our common stock to our named executive officers and certain other officers and employees. The purpose of the grant was also to provide retention of employees following our initial public offering as well as to motivate employees to return value to our shareholders through future appreciation of our common stock price. The exercise price for the option grants is \$34.00, which is the fair market value of our common stock on the date of the grant as determined by our board of directors after receiving a valuation performed by an outside valuation consultant. The stock options granted to the named executive officers other than our CEO and our senior vice president and chief technical officer will generally vest on a four-year vesting schedule with 25% vesting on the first anniversary date of the award and pro-rata on a monthly basis thereafter. The stock options granted to our CEO will vest on a three-year vesting schedule with one-third vesting on the first anniversary date of the award and pro-rata on a monthly basis thereafter. The stock options granted to our senior vice

president and chief technology officer will vest over a two-year vesting schedule with one-half vesting on the first anniversary of the award and pro-rata on a monthly basis thereafter.

For accounting purposes, we apply the guidance in Statement of Financial Accounting Standard 123 (revised December 2004), or SFAS 123(R), to record compensation expense for our stock option grants. SFAS 123(R) is used to develop the assumptions necessary and the model appropriate to value the awards as well as the timing of the expense recognition over the requisite service period, generally the vesting period, of the award.

Executive officers recognize taxable income from stock option awards when a vested option is exercised. We generally receive a corresponding tax deduction for compensation expense in the year of exercise. The amount included in the executive officer's wages and the amount we may deduct is equal to the common stock price when the stock options are exercised less the exercise price multiplied by the number of stock options exercised. We do not pay or reimburse any executive officer for any taxes due upon exercise of a stock option.

In 2005, we determined that we had previously granted certain options to purchase our common stock under our 1995 Plan at exercise prices which we believed were below the fair market value of our common stock at the time of grant. In December 2005, we offered to amend the affected stock option grants of all affected employees by increasing the exercise price of such affected stock option grants to the fair value of our common stock as of the date of grant and awarding additional stock options which vested 50% on January 1, 2006 and 50% on January 1, 2007 at the fair market value of our common stock as of the award date provided that the employee remained employed on those dates. See " Discussion of Summary Compensation and Plan-Based Awards Tables Option Repricing."

Stock option grants are currently made only from the 2004 Plan. Under the 2004 Plan, an option repricing is only allowable with shareholder approval. We no longer grant options under the 1995 Plan, but options granted under the 1995 Plan remain in effect in accordance with their terms.

#### **Overview of 2005 Compensation**

We believe that the total compensation paid to our named executive officers for the fiscal year ended December 31, 2005 achieves the overall objectives of our executive compensation program. In accordance with our overall objectives, executive compensation for 2005 was competitive with our peer group and was weighted more heavily to pay for performance. Based on an analysis of the proxy statements filed in 2005 by our peer group, base salaries paid to our named executive officers for 2005 were generally at the 50<sup>th</sup> percentile of the market and total cash compensation paid to our named executive officers was generally at the 25<sup>th</sup> percentile of the market. Where our philosophy is to target the 75<sup>th</sup> percentile for total cash compensation, we have been moving, and continue to move, towards this targeted level of pay for our executive officers who have achieved outstanding performance.

For 2005, our chief executive officer received total compensation of approximately \$2.7 million, which includes a base salary of \$435,833, stock option awards with a grant date value of approximately \$1.8 million and non-equity incentive plan compensation of \$527,840. On average, the chief executive officers of our peer group received cash compensation of \$953,000 based on an analysis of the proxy statements filed in 2005. Based on an analysis of our peer group, the base salary paid to our chief executive officer for 2005 was at the 50<sup>th</sup> percentile and his cash compensation was between the 25<sup>th</sup> percentile and the median of the market. Based on an analysis of peer group and survey data, the median value for an equity grant was approximately \$1 million and our chief executive officer's 2005 stock option grant was between the median and the 75<sup>th</sup> percentile of the market. We believe that the total compensation paid to our chief executive officer satisfies the objectives of our executive compensation program. The total compensation and elements thereof paid to each of our named executive officers during 2005 is set forth below in the Summary Compensation Table. See " Summary of Compensation."

## Other Benefits

### *Retirement Savings Opportunity*

All employees may participate in our 401(k) Retirement Savings Plan, or 401(k) Plan. Each employee may make before-tax contributions of up to 60% of their base salary up to the current Internal Revenue Service limits. We provide this plan to help our employees save some amount of their cash compensation for retirement in a tax efficient manner. We do not match any contributions made by our employees to the 401(k) Plan, nor did we make any discretionary contributions to the 401(k) Plan in the fiscal years ended December 31, 2005 and 2006. We also do not provide an option for our employees to invest in our stock in the 401(k) plan.

### *Health and Welfare Benefits*

All full-time employees, including our named executive officers, may participate in our health and welfare benefit programs, including medical, dental and vision care coverage, disability insurance and life insurance.

## Employment Agreements, Severance Benefits and Change in Control Provisions

Except with respect to our chief financial officer, Mr. J. Braxton Carter, we do not have any employment agreements in effect with any of our named executive officers. We entered into this agreement with Mr. Carter to ensure he would perform the role for an extended period of time. In addition, we also considered the critical nature of the position and our need to retain him when we committed to this agreement.

In March 2005, we entered into a two-year employment contract with Mr. Carter. If he is terminated for cause or terminates without good reason (as defined in the agreement), we are obligated to pay only those wages, bonuses pursuant to the terms of our annual incentive plan and other compensation then vested. If terminated without cause or if he terminates the employment agreement for good reason (as defined in the agreement), or if we fail to renew his employment contract upon expiration of its term, in addition to the payment of amounts then vested, in exchange for a general release of all claims, he is entitled to:

An extension of time to exercise vested stock options, if any;

Salary for the remaining term of the agreement, if any;

Bonus at target for the remaining term of the agreement, if any;

An amount equal to twelve months of his salary;

An amount equal to twelve months of target bonus; and

A lump sum amount for health benefits equal to the COBRA premiums for the number of months in the remaining term of the agreement, if any, plus twelve months which is grossed up for federal income taxes less appropriate tax withholdings.

We grant options, or have granted options, that remain outstanding under two plans, the 1995 Plan and the 2004 Plan. The 1995 Plan terminated in November 2005 and no further awards can be made under the 1995 Plan, but all options granted before November 2005 remain valid in accordance with their terms. The 1995 Plan and the 2004 Plan contain certain change in control provisions. We have these change in control provisions in our 1995 Plan and 2004 Plan to ensure that our executives remain with us through the closing of the sale of the business.

*The 1995 Plan*

Under our 1995 Plan, in the event of a "corporate transaction," as defined in the 1995 Plan, the following occurs with respect to options granted under the 1995 Plan:

Each outstanding option automatically accelerates so that each option becomes fully exercisable for all of the shares of the related class of common stock at the time subject to such option immediately before the corporation transaction;

All outstanding repurchase rights automatically terminate and the shares of common stock subject to those terminated rights immediately vest in full;

Immediately following a corporate transaction, all outstanding options terminate and cease to be outstanding, except to the extent assumed by the successor corporation and thereafter adjusted in accordance with the 1995 Plan; and

In the event of an "involuntary termination" of an optionee's "service" with us within 18 months following a corporate transaction, any fully-vested options issued to such holder remain exercisable until the earlier of (i) the expiration of the option term, or (ii) the expiration of one year from the effective date of the involuntary termination.

Corporate transactions for purposes of the 1995 Plan include either of the following shareholder-approved actions involving us:

A merger or consolidation transferring greater than 50% of the voting power of our outstanding securities to a person or persons different from the persons holding those securities immediately prior to such transaction; or

The disposition of all or substantially all of our assets in a complete liquidation or dissolution;

*The 2004 Plan*

Under our 2004 Plan, unless otherwise provided in an "award," a "change of control," as defined in the 2004 Plan, results in the following:

All "options" and "stock appreciation rights" then outstanding become immediately vested and fully exercisable;

All restrictions and conditions of all "restricted stock" and "phantom stock" then outstanding are deemed satisfied, and the "restriction period" or other limitations on payment in full with respect thereto are deemed to have expired, as of the date of the change in control; and

All outstanding "performance awards" and any "other stock or performance-based awards" become fully vested, deemed earned in full and are to be promptly paid to the participants as of the date of the change in control.

A change of control for purpose of the 2004 Plan is deemed to have occurred if:

Any "person" (a) other than us or any of our subsidiaries, (b) any of our or our subsidiaries' employee benefit plans, (c) any "affiliate," (d) a company owned, directly or indirectly, by our stockholders, or (e) an underwriter temporarily holding our securities pursuant to an offering of such securities, becomes the "beneficial owner," directly or indirectly, of more than 50% of our voting stock;

A merger, organization, business combination or consolidation of us or one of our subsidiaries transferring greater than 50% of the voting power of our outstanding securities to a person or persons different from the persons holding those securities immediately prior to such transaction;

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The disposition of all or substantially all of our assets, other than to the current holders of 50% or more of the voting power of our voting securities;

The approval by the shareholders of a plan for the complete liquidation or dissolution; or

The individuals who constitute our board on the effective date of the 2004 Plan (or any individual who was appointed to the board of directors by a majority of the individuals who constitute our board of directors as of the effective date of the 2004 Plan) cease for any reason to constitute at least a majority of our board of directors.

Additionally, under the 2004 Plan, if approved by our board of directors prior to or within 30 days after such a change in control, the board of directors has the right for a 45-day period immediately following the change in control to require all, but not less than all, "participants" to transfer and deliver to us all "awards" previously granted to the participants in exchange for an amount equal to the "cash value" of the "awards."

While we have no written severance plan for our executives, in practice, we have offered severance payments to terminated executives based on the position held and the time in the role. Generally, it has been our practice to provide twelve months of severance for executives, potentially adjusted for length of service, where the executive's service has been severed by us. For a more detailed discussion of the 2004 Plan, see " Discussion of Summary Compensation and Plan-Based Awards Tables 2004 Equity Incentive Compensation Plan."

### **Stock Ownership Guidelines**

Stock ownership guidelines have not been implemented by the compensation committee for our executive officers. Prior to our initial public offering, the market for our stock was limited to other shareholders and subject to a stockholders agreement that limited a stockholder's ability to transfer their stock. We have chosen not to require stock ownership given the limited market for our securities. We will continue to periodically review best practices and re-evaluate our position with respect to stock ownership guidelines.

### **Securities Trading Policy**

Our securities trading policy states that executive officers, including the named executive officers, and directors may not purchase or sell puts or calls to sell or buy our stock, engage in short sales with respect to our stock, or buy our securities on margin.

### **Tax Deductibility of Executive Compensation**

Limitations on deductibility of compensation may occur under Section 162(m) of the Internal Revenue Code which generally limits the tax deductibility of compensation paid by a public company to its chief executive officer and certain other highly compensated executive officers to \$1 million in the year the compensation becomes taxable to the executive officer. There is an exception to the limit on deductibility for performance-based compensation that meets certain requirements.

Although deductibility of compensation is preferred, tax deductibility is not a primary objective of our compensation programs. We believe that achieving our compensation objectives set forth above is more important than the benefit of tax deductibility and we reserve the right to maintain flexibility in how we compensate our executive officers that may result in limiting the deductibility of amounts of compensation from time to time.

**Summary of Compensation**

The following table sets forth certain information with respect to compensation for the year ended December 31, 2005 earned by or paid to our chief executive officer, chief financial officer, including the former chief financial officer, and our three other most highly compensated executive officers, which are referred to as the named executive officers.

**Summary Compensation Table**

<b>Name &amp; Principal Position</b>	<b>Year</b>	<b>Salary \$</b>	<b>Option Awards \$(5)</b>	<b>Non-Equity Incentive Plan Compensation \$(6)</b>	<b>Total \$</b>
Roger D. Linquist President and CEO	2005	\$ 435,833		\$ 527,840	\$ 963,673
J. Braxton Carter Senior VP/CFO(1)	2005	\$ 264,750		\$ 238,280	\$ 503,030
Robert A. Young Executive VP Market Operations	2005	\$ 310,750		\$ 265,340	\$ 576,090
Mark A. Stachiw VP/General Counsel and Secretary(2)	2005	\$ 204,583		\$ 136,740	\$ 341,323
Malcolm M. Lorang VP/Chief Technology Officer(3)	2005	\$ 202,250		\$ 130,790	\$ 333,040
J. Lyle Patrick CFO(4)	2005	\$ 54,858		\$ 0	\$ 54,858

(1) Mr. Carter replaced Mr. Patrick as Chief Financial Officer in March 2005. Mr. Carter was previously our VP, Corporate Operations.

(2) Mr. Stachiw became a Senior Vice President during 2006.

(3) Mr. Lorang became a Senior Vice President during 2006.

(4) Mr. Patrick resigned his position as Chief Financial Officer in February 2005. His resignation was not caused by any disagreement with MetroPCS Communications.

(5) We adopted the fair value recognition provisions of SFAS No. 123(R) effective January 1, 2006. Under the SFAS No. 123(R) modified prospective transition method, we did not record any amounts in our Audited Consolidated Financial Statements for the year ended December 31, 2005 with respect to the awards included in this table. In accordance with APB 25, the following amounts were included as non-cash compensation expense in the 2005 Audited Consolidated Financial Statements for Messrs. Linquist, Carter, Young, and Lorang, respectively: \$83,199, \$6,521, \$28,473 and \$289,800. See Note 2 "Summary of Significant Accounting Policies" to the 2005 Audited Consolidated Financial Statements contained elsewhere in this prospectus for further discussion of the accounting treatment for these options.

(6) MetroPCS Communications awards cash bonuses pursuant to a written Bonus Opportunity Plan. This plan provides for the award of annual cash bonuses based upon targets and maximum bonus payouts set by the board of directors at the beginning of each fiscal year. See " Discussion of Summary Compensation and Plan-Based Awards Tables Material Terms of Plan-Based Awards."

## Grants of Plan-Based Awards

The following table sets forth certain information with respect to grants of plan-based awards for the year ended December 31, 2005 to the named executive officers.

## Grants of Plan-Based Awards

Name & Principal Position	Grant Date	Grant Date Fair Value (\$)(7)	Estimated Future Payouts Under Non-Equity Incentive Plan Awards(8)			Estimated Future Payouts Under Equity Incentive Plan Awards(9)			All Other Stock Awards: Number of Shares or Stock/ Units (#)	All Other Option Awards: Number of Securities Underlying Options (#)	Exercise or Base Price of Option Awards (\$/share)
			Threshold (\$)	Target (\$)	Maximum (\$)	Threshold (#)	Target (#)	Maximum (#)			
Roger D. Linquist President and CEO	8/3/2005	\$ 1,791,639	0	330,000	660,000						
	12/28/2005(5)	\$ (1,801)							173,600	21.4000	
	12/30/2005(6)	\$ 8,416)							8,385	16.4600	
									806	21.4600	
J. Braxton Carter Senior VP/CFO(1)	3/31/2005	\$ 182,682	0	151,250	302,500						
	8/3/2005	\$ 595,493							20,000	18.9400	
	12/28/2005(5)	\$ (1,091)							57,700	21.4000	
	12/30/2005(6)	\$ 2,328)							2,323	16.4600	
									223	21.4600	
Robert A. Young Executive VP Market Operations	8/3/2005	\$ 993,864	0	171,600	343,200						
	12/28/2005(5)	\$ (1,238)							96,300	21.4000	
	12/30/2005(6)	\$ 2,652)							2,637	16.4600	
									254	21.4600	
Mark A. Stachiw VP/General Counsel and Secretary(2)	9/21/2005	\$ 412,548	0	92,250	184,500						
	12/28/2005(5)	\$ (59,155)							40,000	21.4600	
	12/30/2005(6)	\$ 115,605)							40,000	16.4100	
									11,072	21.4600	
Malcolm M. Lorang VP/Chief Technology Officer(3)	8/3/2005	\$ 236,339	0	91,350	182,700						
	12/28/2005(5)	\$ (2,679)							22,900	21.4000	
	12/28/2005(5)	\$ (6,697)							15,469	9.3800	
	12/28/2005(5)	\$ (3,609)							7,687	16.4600	
	12/30/2005(6)	\$ 59,797)							8,035	5.7600	
									5,727	21.4600	
J. Lyle Patrick CFO(4)											

- (1) Mr. Carter replaced Mr. Patrick as Chief Financial Officer in March 2005. Mr. Carter was previously our VP, Corporate Operations.
- (2) Mr. Stachiw became a Senior Vice President during 2006.
- (3) Mr. Lorang became a Senior Vice president during 2006.
- (4) Mr. Patrick resigned his position as Chief Financial Officer in February 2005. His resignation was not caused by any disagreement with MetroPCS Communications.
- (5) Represents the incremental fair value as calculated in accordance with SFAS 123 of certain previously awarded options which were repriced on December 28, 2005. See " Discussion of Summary Compensation and Plan-Based Awards Tables Option Repricing."
- (6) The option grants on December 30, 2005 were made in connection with the repricing of certain previously awarded options. See " Discussion of Summary Compensation and Plan-Based Awards Tables Option Repricing."
- (7) We adopted the fair value recognition provisions of SFAS No. 123(R) effective January 1, 2006. Accordingly, the grant date fair value for awards made in 2005 are calculated in accordance with SFAS 123.



- (8) MetroPCS Communications awards cash bonuses pursuant to a written Bonus Opportunity Plan. This plan provides for the award of annual cash bonuses based upon targets and maximum bonus payouts set by the board of directors at the beginning of each fiscal year. See " Discussion of Summary Compensation and Plan-Based Awards Tables Material Terms of Plan-Based Awards." The actual amount paid to each named executive officer pursuant to the Bonus Opportunity Plan for the fiscal year ended December 31, 2005 is set forth in the Summary Compensation Table under the column titled "Non-Equity Incentive Plan Compensation." See " Summary of Compensation."
- (9) MetroPCS Communications awards stock options pursuant to an unwritten supplemental grant program. Under the supplemental grant program, employees with two or more years of vested service during a year are eligible for consideration, based on their prior year performance rating. See " Discussion of Summary Compensation and Plan-Based Awards Tables Material Terms of Plan-Based Awards."

**Discussion of Summary Compensation and Plan-Based Awards tables**

Our executive compensation policies and practices, pursuant to which the compensation set forth in the Summary Compensation Table and the grants of Plan Based Awards table was paid or awarded, are described above under "Compensation Discussion and Analysis." A summary of certain material terms of our compensation plans and arrangements is set forth below.

***Employment and Indemnification Arrangements***

Except with respect to J. Braxton Carter, we do not have any employment contracts in effect with any of its named executive officers. Mr. Carter serves as our Senior Vice President and Chief Financial Officer.

In March 2005, we entered into a two-year employment contract with J. Braxton Carter, our Senior Vice President and Chief Financial Officer. Under the agreement, Mr. Carter receives, in addition to benefits generally available to all other employees, an initial annual base salary of \$275,000, which amount has been subsequently increased by the board of directors, an annual bonus of fifty-five percent based on our performance, which amount has been increased to seventy-five percent by the board of directors, and an initial grant of options to acquire 20,000 shares of our common stock. For a discussion of the compensation and benefits payable to Mr. Carter under the agreement upon termination, see " Employment Agreements, Severance Benefits and Change in Control Provisions."

We have also entered into agreements with each director, each officer, and certain other employees which require us to indemnify and advance expenses to the directors, officers, and covered employees to the fullest extent permitted by applicable law if the person is or threatened to be made a party to any threatened, pending or completed action, suit, proceeding, investigation, administrative hearing whether formal or informal, governmental or non-governmental, civil, criminal, administrative, or investigative if he acted in good faith and in a manner he reasonably believed to be in, or not opposed to, the best interests of MetroPCS Communications or in a manner otherwise expressly permitted under our certificate of incorporation, the by-laws, or our stockholders agreement.

***Option Repricing***

In 2004, Congress passed the American Job Creation Act of 2004 which changed certain rules with respect to deferred compensation, including options to purchase our common stock which were granted below the fair market value of the common stock as of the grant date. We had previously granted certain options to purchase our common stock under the 1995 Plan at exercise prices which we believe were below the fair market value of our common stock at the time of grant. In December 2005, we offered to amend the stock option grants of all affected employees by increasing the exercise price of such affected stock option grants to the fair value of our common stock as of the date of grant and granting additional stock options which vested 50% on January 1, 2006 and 50% on January 1, 2007 at the fair market value of our common stock as of the grant date provided that the employee remained employed by us on those dates. The total number of affected stock options was 872,380 and we granted 135,758 additional stock options.

***Bonus and Salary***

Our board of directors has established a pay for performance approach for determining executive pay. Base salaries are targeted at the median of competitive practice while total annual cash compensation is targeted at the 75<sup>th</sup> percentile of competitive practice. We have established a peer group of publicly traded companies in similar lines of business in similar geographies, as well as similar in size in terms of revenue and market capitalization. We have also utilized several well-established third-party surveys that are industry specific and focused on executive pay in the telecommunications and wireless industries. See " The Objectives of our Executive Compensation Program."

***2004 Equity Incentive Compensation Plan***

Our board of directors has adopted, and our stockholders have approved, our 2004 Equity Incentive Compensation Plan, as amended, or the 2004 Plan.

*Administration.* Our 2004 Plan is administered by the compensation committee of our board of directors. As plan administrator, the compensation committee has full authority to (i) interpret the 2004 Plan and all awards thereunder, (ii) make, amend and rescind such rules as it deems necessary for the administration of the 2004 Plan, (iii) make all determinations necessary or advisable for the administration of the 2004 Plan, and (iv) make any corrections to the 2004 Plan or an award deemed necessary by the compensation committee to effectuate the 2004 Plan. All awards under the 2004 Plan are granted by the compensation committee in its discretion.

*Eligibility.* All of our and our affiliates' employees, consultants and non-employee directors are eligible to be granted awards by the compensation committee under the 2004 Plan. An employee, consultant or non-employee director granted an award is a participant under our 2004 Plan. The compensation committee also has the authority to grant awards to a third party designated by a non-employee director provided that (i) the board of directors consents to such grant, (ii) such grant is made with respect to awards that otherwise would be granted to such non-employee director, and (iii) such grant and subsequent issuance of stock may be made upon reliance of an exemption from the Securities Act.

*Number of Shares Available for Issuance.* The maximum number of shares of our common stock that are authorized for issuance under our 2004 Plan currently is 6,200,000, which amount we intend to increase prior to our initial public offering. Shares issued under the 2004 Plan may be treasury shares, authorized but unissued shares or, if applicable, shares acquired in the open market.

In the event the number of shares to be delivered upon the exercise or payment of any award granted under the 2004 Plan is reduced for any reason or in the event that any award (or portion thereof) can no longer be exercised or paid, the number of shares no longer subject to such award shall be released from such award and shall thereafter be available under the 2004 Plan for the grant of additional awards.

Upon the occurrence of a merger, consolidation, recapitalization, reclassification, stock split, stock dividend, combination of shares or the like, the administrator of the 2004 Plan may ratably adjust the aggregate number and affected class of securities available under the 2004 Plan.

*Types of Awards.* The compensation committee may grant the following types of awards under our 2004 Plan: stock options; purchased stock; bonus stock; stock appreciation rights; phantom stock; restricted stock; performance awards; or other stock or performance-based awards. Stock options awarded under our 2004 Plan may be nonqualified stock options or incentive stock options under Section 422 of the Internal Revenue Code of 1986, as amended, or the Code. With the exception of incentive stock options, the compensation committee may grant, from time to time, any of the types of awards under our 2004 Plan to our employees, consultants and non-employee directors. Incentive stock options may only be granted to our employees. Awards granted may be granted either alone or in addition to, in tandem with, or in substitution or exchange for, any other award or any award granted under another of our plans, or any business entity to be acquired by us, or any other right of a participant to receive payment from us.

*Stock Options.* A stock option is the right to acquire shares of our common stock at a fixed price for a fixed period of time and generally are subject to a vesting requirement. A stock option will be in the form of a nonqualified stock option or an incentive stock options. The exercise price is set by the compensation committee but cannot be less than 100% of the fair market value of our common stock on the date of grant, or, in the case of incentive stock options granted to an employee who owns 10%

or more of total combined voting power of our common stock, or a 10% owner, the exercise price cannot be less than 110% of the fair market value of our common stock on the date grant. The term of a stock option may not exceed ten years or five years in the case of incentive stock options granted to a 10% owner. With stockholder approval, the compensation committee may grant to the holder of outstanding nonqualified stock option a replacement options with lower (or higher with consent) exercise price than the exercise price of the replaced options.

*Purchased Stock.* Purchase stock awards entitle the participant to purchase our common stock at a price per share that may be less than, but not greater than, the fair market value per share at the time of purchase.

*Bonus Stock.* Bonus stock grants are made in consideration of performance or services by the participant with no additional consideration except as may be required by the compensation committee or the 2004 Plan.

*Stock Appreciation Rights and Phantom Stock.* Stock appreciation rights are awards that entitle the participant to receive a payment equal to the excess, if any, of the fair market value on the exercise date of a specified number of shares of our common stock over a specified grant price. Phantom stock awards are rights to receive cash equal to the fair market value of a specified number of shares of our common stock at the end of a specified deferral period. Stock appreciation rights may be granted in tandem with options. All stock appreciation rights granted under our 2004 Plan must have a grant price per share that is not less than the fair market value of a share of our common stock on date of the grant.

*Restricted Stock.* Restricted stock awards are shares of our common stock that are subject to cancellation, restrictions and vesting conditions, as determined by the compensation committee.

*Performance Awards.* Performance awards are awards granted based on performance criteria measured over a period of not less than six months and not more than ten years. Performance awards may be payable in shares of our common stock, cash or any combination thereof as determined by our compensation committee.

*Other Awards.* The compensation committee also may grant other forms of awards that generally are based on the value of our common stock, or cash, as determined by the compensation committee to be consistent with the purposes of our 2004 Plan.

*Section 162(m) Performance-Based Awards.* The performance goals for performance awards under our 2004 Plan consist of one or more business criteria and a targeted level or levels of performance with respect to each of such criteria, as specified by the compensation committee. In the case of any award granted to our chief executive officer or one of our four most highly paid officers other than the chief executive officer, performance goals are designed to be objective and shall otherwise meet the requirements of Section 162(m) of the Code and regulations thereunder (including Treasury Regulations section 1.162-27 and successor regulations thereto), including the requirement that the level or levels of performance targeted by the compensation committee are such that the achievement of performance goals is "substantially uncertain" at the time of grant. The compensation committee may determine that such performance awards shall be granted and/or settled upon achievement of any one performance goal or that two or more of the performance goals must be achieved as a condition to the grant and/or settlement of such performance awards. Performance goals may differ among performance awards granted to any one participant or for performance awards granted to different participants.

One or more of the following business criteria for us, on a consolidated basis, and/or for our specified subsidiaries, divisions or business or geographical units (except with respect to the total stockholder return and earnings per share criteria), may be used by the compensation committee in

establishing performance goals for performance awards granted to a participant: (A) earnings per share; (B) increase in price per share; (C) increase in revenues; (D) increase in cash flow; (E) return on net assets; (F) return on assets; (G) return on investment; (H) return on equity; (I) economic value added; (J) gross margin; (K) net income; (L) pretax earnings; (M) pretax earnings before interest, depreciation and amortization; (N) pretax operating earnings after interest expense and before incentives, service fees, and extraordinary or special items; (O) operating income; (P) total stockholder return; (Q) debt reduction; (R) other company or industry specific measurements used in our management and internal or external reporting, including but not limited to, average revenue per user, cost per gross add, cash cost per user, adjusted earnings before interest, taxes, depreciation and amortization, capital expenditure per customer, etc., and (S) any of the above goals determined on the absolute or relative basis or as compared to the performance of a published or special index deemed applicable by the compensation committee including, but not limited to, the Standard & Poor's 500 Stock Index or components thereof, or a group of comparable companies. For a discussion of our equity incentive compensation for 2005 and 2006, see " Long-term Equity Incentive Compensation."

*Exercise of Options.* The exercise price is due upon the exercise of the option. The exercise price may be paid (1) in cash or by check, (2) with the consent of the compensation committee, in shares of our common stock held previously acquired by the optionee (that meet a holding period requirement) based on the shares fair market value as of the exercise date, or (3) with the consent and pursuant to the instructions of the compensation committee, by cashless exercise through a broker. Nonqualified stock options may be exercised at any time before the expiration of the option period at the discretion of the compensation committee. Incentive stock options must not be exercised more than three months after termination of employment for any reason other than death or disability and no more than one year after the termination of employment due to death or disability in order to meet the Code section 422 requirements.

*Change of Control.* For a discussion of the change of control provisions under our 2004 Plan, please see " Employment Agreements, Severance Benefits and Change in Control Provisions."

*Amendment and Discontinuance; Term.* Our board of directors may amend, suspend or terminate our 2004 Plan at any time, with or without prior notice to or consent of any person, except as would require the approval of our stockholders, be required by law or the requirements of the exchange on which our common stock is listed or would adversely affect a participant's rights to outstanding awards without their consent. Unless terminated earlier, our 2004 Plan will expire on the tenth anniversary of its effective date.

#### ***Material Terms of Plan-Based Awards***

##### ***Bonus Opportunity Plan***

We have established a written Bonus Opportunity Plan. Full time employees who do not participate in a sales variable compensation plan and who are hired on or before October 31<sup>st</sup> of the applicable year are qualified to participate in the plan. Employees who are hired before October 31<sup>st</sup> will have their bonus amount prorated for time in the plan, calculated in whole month increments. Employees who enter the plan prior to the 15<sup>th</sup> of a month are credited with a whole month of service; those who enter after the 15<sup>th</sup> begin accruing service under the plan at the beginning of the next month.

This plan provides for the award of annual cash bonuses based upon targets and maximum bonus payouts set by the board of directors at the beginning of each fiscal year. The performance period for the annual Bonus Opportunity Plan is the calendar year, and payouts under the plan are made in February following the plan year.

Target bonus levels under the Bonus Opportunity Plan as a percentage of base salary are set based on each employee's level. All officers (vice president and above) will have a target bonus opportunity set for their position ranging from 35% of base salary at the vice president level to 100% of base salary for the chief executive officer in 2006. The target bonus level reflects 100% achievement of established performance goals. The maximum payout opportunity under the Plan is 200% of target.

*Supplemental Stock Option Grant Program*

We have established an unwritten supplemental stock option grant program to:

incentivize and reward individuals whose accountability, performance and potential is critical to our success;

encourage long-term focus and provide a strong link to shareholder interests and foster a shared commitment to move the business towards our long-range objectives;

deliver a competitive "total reward" package to attract and retain staff in a highly competitive industry; and

create a direct link between company results and employee rewards.

Full time employees, other than retail store non-exempt personnel, are eligible for consideration under the program. Under the supplemental grant program, employees with two or more years of vested service during a year are eligible for consideration, based on their prior year performance rating under the organization's performance appraisal program and management recommendation.

Each year we work with an outside consultant to evaluate the competitiveness of the stock grant structure to ensure that the program remains competitive in the market. Recommendations are reviewed by board designated external experts, the compensation committee of the board of directors, and presented to the board of directors for approval. Grants are reviewed and approved by the board of directors during the first quarter of each year. This program is discretionary and may be discontinued at any time.

## Outstanding Equity Awards

The following table sets forth certain information with respect to outstanding equity awards at December 31, 2005 with respect to the named executive officers.

## Outstanding Equity Awards at Fiscal Year-End

Name	Option Awards					Stock Awards			
	Number of Securities Underlying Unexercised Options (#) Exercisable(1)	Number of Securities Underlying Unexercised Options (#) Unexercisable(1)	Equity Incentive Plan Awards; Number of Securities Underlying Unexercised Options (#)	Option Exercise Price (\$)(13)	Option Expiration Date	Number of Shares or Units of Stock that Have Not Vested (#)	Market Value of Shares or Units of Stock that Have Not Vested (\$)	Equity Incentive Awards: Number of Shares, Units or Rights that Have Not Vested (#)	Equity Incentive Awards: Market or Payout Value of Unearned Shares, Units or Rights that Have Not Vested (\$)
Roger D. Linquist President and CEO	8,385(2)			\$ 16.46	3/11/2014				
	173,600(3)			\$ 21.40	8/3/2015				
J. Braxton Carter Senior VP/CFO		806(4)		\$ 21.46	12/30/2015				
	2,323(2)			\$ 16.46	3/11/2014				
	20,000(5)			\$ 18.94	3/31/2015				
	55,019(3)			\$ 21.40	8/3/2015				
		2,681(3)		\$ 21.40	8/3/2015				
Robert A. Young Executive VP Market Operations		223(4)		\$ 21.46	12/30/2015				
	2,637(2)			\$ 16.46	3/11/2014				
		96,300(3)		\$ 21.40	8/3/2015				
Mark A. Stachiw VP/General Counsel and Secretary		254(4)		\$ 21.46	12/30/2015				
	40,000(6)			\$ 16.41	10/12/2014				
		40,000(7)		\$ 21.46	9/21/2015				
Malcolm M. Lorang VP/Chief Technology Officer		11,072(4)		\$ 21.46	12/30/2015				
	95,148(8)			\$ 0.23	7/1/2009				
	12,265(9)								
	8,035(10)			\$ 4.70	7/1/2012				
	7,031(11)								
	15,469(12)			\$ 5.76	7/1/2012				
	7,687(2)								
22,900(3)			\$ 4.70	10/30/2013					
J. Lyle Patrick(14) VP/CFO				\$ 9.38	10/30/2013				
				\$ 16.46	3/11/2014				
				\$ 21.40	8/3/2015				
		5,727(4)		\$ 21.46	12/30/2015				

- (1) Unless otherwise noted, options vest over a period of four years as follows: twenty-five percent (25%) of the option vests after first year of service beginning on the "Vesting Commencement Date" (as defined in the Employee Non-Qualified Option Grant Agreement). The remainder vests upon the optionee's completion of each additional month of service, in a series of thirty-six (36) successive, equal monthly installments beginning with the first anniversary of the Vesting Commencement Date.
- (2) Options granted on March 11, 2004 and vest over a period of 4 years ending March 11, 2008. Options repriced from \$14.90 to \$16.46 on December 28, 2005.
- (3) Options granted on August 3, 2005 and vest over a period of 4 years ending March 31, 2009.
- (4) Options granted on December 30, 2005 and vest over a one-year period as follows: fifty percent (50%) of the underlying shares vesting on January 1, 2006 and the remaining fifty percent (50%) of the shares vesting on January 1, 2007.
- (5) Options granted on March 31, 2005 and vest over a period of 4 years ending March 31, 2009.
- (6) Options granted on October 12, 2004 and vest over a period of 4 years ending October 12, 2008. Options repriced from \$11.92 to \$16.41 on December 28, 2005.
- (7) Options granted on September 21, 2005 and vest over a period of 4 years ending September 21, 2009.
- (8) Options granted July 1, 1999 and vested ratably in a series of forty eight (48) successive equal monthly installments ending July 1, 2003.
- (9) Options granted on July 1, 2002 and vest over a period of 4 years ending July 1, 2006.
- (10) Options granted on July 1, 2002 and vest over a period of 4 years ending July 1, 2006. Options repriced from \$4.70 to \$5.76 on December 28, 2005.
- (11) Options granted on October 30, 2003 and vest over a period of 4 years ending September 16, 2007.



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- (12) Options granted on October 30, 2003 and vest over a period of 4 years ending September 16, 2007. Options repriced from \$4.70 to \$9.38 on December 28, 2005.
- (13) See " Discussion of Summary Compensation and Plan-Based Awards Tables Option Repricing" for a discussion of the repricing of certain options granted to our named executive officers.
- (14) Mr. Patrick resigned his position as Chief Financial Officer in February 2005 and his resignation was not caused by any disagreement with MetroPCS Communications.

### Option Exercises

The following table sets forth certain information with respect to option and stock exercises during the fiscal year ended December 31, 2005 with respect to the named executive officers.

#### Option Exercises and Stock Vested

Name & Principal Position	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise (\$)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting (\$)
Roger D. Linqvist President and CEO	4,214,062	\$ 88,736,209(5)(6)		
J. Braxton Carter Senior VP/CFO(1)	98,717	\$ 1,488,57(5)(7)		
Robert A. Young Executive VP Market Operations	183,316	\$ 2,859,033(5)(8)		
Mark A. Stachiw VP/General Counsel and Secretary(2)				
Malcolm M. Lorang VP/Chief Technology Officer(3)	584,802	\$ 12,346,046(9)(10)		
J. Lyle Patrick CFO(4)				

- (1) Mr. Carter replaced Mr. Patrick as Chief Financial Officer in March 2005.
- (2) Mr. Stachiw became a Senior Vice President during 2006.
- (3) Mr. Lorang became a Senior Vice President during 2006.
- (4) Mr. Patrick resigned his position as Chief Financial Officer in February 2005 and his resignation was not caused by any disagreement with MetroPCS Communications.
- (5) In connection with the tender offer conducted by Madison Dearborn Partners and TA Associates in September 2005, Messrs. Linqvist, Carter and Young entered into tender and support letters with the purchasers. Pursuant to the terms of the tender and support letters, Messrs. Linqvist, Carter and Young were permitted to sell up to 25% of the shares they owned or controlled at the time (including vested and unvested stock options) in addition to the number of shares all other employees were permitted to sell; provided that the additional shares could only be sold to permit them to pay the option exercise price for shares obtained upon exercise of options and for the federal and state tax obligations associated with such exercises.

- (6) Mr. Linquist exercised options to purchase 4,214,062 shares in anticipation of the tender offer for an aggregate purchase price of \$1,697,561. Of these shares, he sold 2,340,723 to Madison Dearborn and TA Associates in the tender offer for an aggregate purchase price of \$50,231,915. Mr. Linquist or his beneficiaries continue to hold the remaining 1,873,339 shares obtained upon exercise of the options prior to the tender offer.
- (7) Mr. Carter exercised options to purchase 98,717 shares in anticipation of the tender offer for an aggregate purchase price of \$629,893. Of these shares, he sold 80,983 to Madison Dearborn and TA Associates in the tender offer for an aggregate purchase price of \$1,737,895. Mr. Carter continues to hold the remaining 17,734 shares obtained upon exercise of the options prior to the tender offer.

- (8) Mr. Young exercised options to purchase 183,316 shares in anticipation of the tender offer for an aggregate purchase price of \$1,074,928. Of these shares, he sold 141,176 to Madison Dearborn and TA Associates in the tender offer for an aggregate purchase price of \$3,029,637. Mr. Young continues to hold the remaining 42,140 shares obtained upon exercise of the options prior to the tender offer.
- (9) In connection with the tender offer conducted by Madison Dearborn Partners and TA Associates in September 2005, Mr. Lorang entered into a tender and support letter with the purchasers. Pursuant to the terms of the tender and support letter, Mr. Lorang was permitted to sell up to 50% of the shares he owned or controlled at the time (including vested and unvested stock options) in addition to the number of shares all other employees were permitted to sell.
- (10) Mr. Lorang exercised options to purchase 584,802 shares in anticipation of the tender offer for an aggregate purchase price of \$203,804. He sold all such shares to Madison Dearborn and TA Associates in the tender offer for an aggregate purchase price of \$12,549,851.

#### **Pension Benefits**

We do not have any plan that provides for payments or other benefits at, following, or in connection with, retirement.

#### **Non-Qualified Deferred Compensation**

We do not have any plan that provides for the deferral of compensation on a basis that is not tax-qualified.

#### **Compensation of Directors**

Non-employee members of our board of directors are eligible to participate in a non-employee director remuneration plan under which such directors may receive compensation for serving on our board of directors. Our objectives for director compensation are to remain competitive with the compensation paid to directors of comparable companies while adhering to corporate governance best practices with respect to such compensation, and to reinforce our practice of encouraging stock ownership. Our non-employee director compensation includes:

an annual retainer of \$15,000 plus \$2,000 if such member serves as the chairman of the finance, compensation or the nominating and governance committee of the board of directors and \$5,000 if such member serves as chairman of the audit committee of the board of directors, which amount may be payable in cash, common stock, or a combination of cash and common stock;

any payments of annual retainer made in common stock shall be for a number of shares that is equal to (a) the portion of the annual retainer to be paid in common stock divided by the fair market value of the common stock on the date of payment of the annual retainer (b) times three.

an initial grant of 40,000 options to purchase common stock plus an additional 10,000 or 3,000 options to purchase common stock if the member serves as the chairman of the audit committee or as chairman of any of the other committees of the board of directors, respectively;

an annual grant of 10,000 options to purchase common stock plus an additional 5,000 or 2,000 options to purchase common stock if the member serves as the chairman of the audit committee or as chairman of any of the other committees of the board of directors, respectively;

\$1,500 for each in-person board of directors meeting and \$750 for each telephonic meeting of the board of directors attended;

\$1,500 for each in-person Committee Paid Event (as defined in our Non-Employee Director Remuneration Plan) and \$750 for each telephonic Committee Paid Event attended and the chairman



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of the committee receives an additional \$500 for each in-person Committee Paid Event and \$250 for each telephonic Committee Paid Event attended.

The following table sets forth certain information with respect to our non-employee director compensation during the fiscal year ended December 31, 2005.

**Director Compensation Table**

Name	Fees Earned or Paid in Cash	Stock Awards(1)	Option Awards(2)	Non-Equity Incentive Plan Compensation	Change in Pension Value & Non-qualified Deferred Compensation Earnings	All Other Compensation	Total
W. Michael Barnes(3)	\$ 126,250	\$ 70,385					\$ 196,635
C. Boyden Gray(4)	\$ 15,750	\$ 52,794					\$ 68,544
Harry F. Hopper, III(5)	\$ 70,250	\$ 59,834					\$ 130,084
Joseph T. McCullen, Jr.(6)	\$ 75,750	\$ 52,794					\$ 128,544
Arthur C. Patterson(7)	\$ 63,750	\$ 59,834					\$ 123,584
John Sculley(8)	\$ 62,250	\$ 52,794					\$ 115,044
Craig R. Stapleton(9)	\$ 8,250	\$ 52,794					\$ 61,044
James F. Wade(10)	\$ 47,000	\$ 59,834					\$ 106,834
George E. Morgan, III(11)	\$ 1,500	\$ 52,794					\$ 54,294
Walker C. Simmons(12)	\$ 14,250	\$ 52,794					\$ 67,044
C. Kevin Landry(13)	\$ 11,250	\$ 0					\$ 11,250
James N. Perry, Jr.(14)	\$ 11,750	\$ 0					\$ 11,750

- (1) Stock awards issued to members of the board of directors are recorded at market value on the date of issuance.
- (2) We adopted the fair value recognition provisions of SFAS No. 123(R) effective January 1, 2006. Under the SFAS No. 123(R) modified prospective transition method, we did not record any amounts in our Audited Consolidated Financial Statements for the year ended December 31, 2005 with respect to the awards included in this table. In accordance with APB 25, the following amounts were included as non-cash compensation expense in the 2005 Audited Consolidated Financial Statements for Messrs. Gray, McCullen, Patterson and Sculley, respectively: \$290,766, \$127,786, \$290,766 and \$290,766. See Note 2 "Summary of Significant Accounting Policies" to the 2005 Audited Consolidated Financial Statements contained elsewhere in this prospectus for further discussion of the accounting treatment for these options.
- (3) Mr. Barnes is chairman of the Audit Committee, and was chairman of such committee during our independent investigation during fiscal year 2005. A portion of the fees paid in cash to Mr. Barnes are related to the extensive services he performed during the investigation. For a discussion of our independent investigation, see "Management's Discussion and Analysis of Financial Condition and Results of Operations Year Ended December 31, 2004 compared to Year Ended December 31, 2003." Includes 3,289 stock awards and 50,829 option awards outstanding as of December 31, 2005.
- (4) Includes 2,467 stock awards and 145,476 option awards outstanding as of December 31, 2005. Mr. Gray served as a director from our inception to February 2006, when he resigned. Mr. Gray's resignation was not caused by a disagreement with us or management.
- (5) Includes 2,796 stock awards and 112,508 option awards outstanding as of December 31, 2005. Mr. Hopper resigned as a director in May 2006. Mr. Hopper's resignation was not caused by a disagreement with us or management.
- (6) Includes 2,467 stock awards and 19,912 option awards outstanding as of December 31, 2005. Mr. McCullen resigned as a director in December 2005. Mr. McCullen's resignation was not caused by a disagreement with us or management.

- (7) Includes 2,796 stock awards and 112,508 option awards outstanding as of December 31, 2005.
- (8) Includes 2,467 stock awards and 180,476 option awards outstanding as of December 31, 2005.

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- (9) Includes 2,467 stock awards and 0 option awards outstanding as of December 31, 2005. Mr. Stapleton served as a director from our inception to July 2005, when he resigned. Mr. Stapleton's resignation was not caused by a disagreement with us or management.
- (10) Includes 2,796 stock awards and 93,087 option awards outstanding as of December 31, 2005.
- (11) Includes 2,467 stock awards and 0 option awards outstanding as of December 31, 2005. Mr. Morgan served as a director from December 2004 to March 2005, when he resigned. Mr. Morgan's resignation was not caused by a disagreement with us or management.
- (12) Includes 2,467 stock awards and 0 option awards outstanding as of December 31, 2005. Mr. Simmons previously served as a director from December 2004 until March 2005, when he resigned. Mr. Simmons' resignation was not caused by a disagreement with us or management. Mr. Simmons was reappointed to the board in June 2006.
- (13) Includes 0 stock awards and 40,000 option awards outstanding as of December 31, 2005. The non-employee director remuneration plan effective as of March 31, 2005 provided for 40,000 initial option awards for new directors.
- (14) Includes 0 stock awards and 40,000 option awards outstanding as of December 31, 2005. The non-employee director remuneration plan effective as of March 31, 2005 provided for 40,000 initial option awards for new directors.
- (15) We adopted the fair value recognition provisions of SFAS No. 123(R) effective January 1, 2006. Accordingly, the following summarizes the grant date fair value of each award granted during 2005, computed in accordance with SFAS No. 123:

Name	Grant Date	Number of Securities Underlying Options (#)	Exercise or Base Price of Option Awards (\$/share)	Grant Date Fair Value (\$)
W. Michael Barnes	8/3/2005	17,217	\$ 21.4000	\$ 177,688
	12/28/2005(a)	7,600	\$ 16.4100	\$ (5,031)
	12/30/2005	1,012	\$ 21.4600	\$ 10,566
C. Boyden Gray	8/3/2005	18,506	\$ 21.4000	\$ 190,991
Harry F. Hopper, III	8/3/2005	22,208	\$ 21.4000	\$ 229,198
Joseph T. McCullen, Jr	8/3/2005	19,912	\$ 21.4000	\$ 205,502
Arthur C. Patterson	8/3/2005	22,208	\$ 21.4000	\$ 229,198
John Sculley	8/3/2005	18,506	\$ 21.4000	\$ 190,991
Craig R. Stapleton				
James F. Wade	8/3/2005	22,208	\$ 21.4000	\$ 229,198
George E. Morgan, III				
Walker C. Simmons				
C. Kevin Landry	9/21/2005	40,000	\$ 21.4600	\$ 412,548
James N. Perry, Jr	10/19/2005	40,000	\$ 21.4600	\$ 412,548

- (a) Represents the incremental fair value as calculated in accordance with SFAS 123 of certain previously awarded options which were repriced on December 28, 2005.

**Registration Rights Agreement**

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We plan to amend and restate our existing stockholders agreement and rename it a registration rights agreement effective upon the consummation of this offering. The stockholder parties to the registration rights agreement will be entitled to certain rights with respect to the registration of the sale of such shares under the Securities Act. Under the terms of the registration rights agreement, if we propose to register any of its securities under the Securities Act, either for our own account or for the account of other security holders exercising registration rights, such holders will be entitled to notice of such registration and are entitled to include shares in the registration. Stockholders benefiting from these rights may also require us to file a registration statement under the Securities Act at our expense with respect to their shares of common stock, and we will be required to use our best efforts to effect such registration. Further, these stockholders



may require us to file additional registration statements on Form S-3 at our expense. These rights are subject to certain conditions and limitations, among them the rights of underwriters to limit the number of shares included in such registration and an agreement not to sell any securities for 180 days following our initial public offering.

#### **Post-Employment and Change in Control Payments**

In March 2005, we entered into a two-year employment contract with J. Braxton Carter, our senior vice president and chief financial officer. The agreement provides that if he is terminated for cause or terminates without good reason (as defined in the agreement), we are obligated to pay only those wages, bonuses pursuant to the terms of our annual cash incentive plan and other compensation then vested. If he is terminated without cause, if he terminates the employment agreement for good reason, or if we fail to renew his employment contract upon expiration of its term, in addition to the payment of amounts then vested, in exchange for a general release of all claims, he is entitled to:

An extension of time to exercise vested stock options, if any;

Salary for the remaining term of the agreement, if any;

Bonus at target for the remaining term of the agreement, if any;

An amount equal to twelve months of his salary;

An amount equal to target bonus; and

A lump sum amount for health benefits equal to the COBRA premiums for the number of months in the remaining term of the agreement, if any, plus twelve months.

If Mr. Carter had been terminated for cause or if he terminated his employment without good reason on December 31, 2005, the approximate value of the severance benefits under his employment agreement would have been \$0.2 million. If Mr. Carter had been terminated without cause, if he terminated his employment for good reason or if we failed to renew his employment contract, the approximate value of the severance benefits under his employment agreement would have been approximately \$1.2 million.

We have two stock option plans under which we grant options to purchase our common stock: the Second Amended and Restated 1995 Stock Option Plan, as amended, and the 2004 Equity Incentive Compensation Plan, as amended. The 1995 Plan terminated in November 2005 and no further awards can be made under the 1995 Plan, but all options granted before November 2005 remain valid in accordance with their terms. Each of these plans contain certain change in control provisions. For a discussion of these change in control provisions, please see " Employment Agreements, Severance Benefits and Change in Control Provisions."

Had a "corporate transaction" (as defined in our 1995 Plan) or a "change of control" (as defined in our 2004 Plan) occurred on December 31, 2005 with respect to each named executive officer, the value of the benefits for each such officer, based on the fair market value of our stock on that date, would have been as follows: Mr. Linquist \$637,561, Mr. Carter \$236,692, Mr. Young \$324,274, Mr. Stachiw \$143,087, Mr. Lorang \$188,397 and Mr. Patrick \$0.

**SECURITY OWNERSHIP OF PRINCIPAL AND SELLING STOCKHOLDERS**

The following table sets forth information as of September 30, 2006 regarding the beneficial ownership of each class of our outstanding capital stock by:

each of our directors;

each named executive officer;

all of our directors and executive officers as a group;

each person known by us to beneficially own more than 5% of the outstanding shares of our common stock, Series D Preferred Stock or Series E Preferred Stock; and

the selling stockholders

The beneficial ownership information has been presented in accordance with SEC rules and is not necessarily indicative of beneficial ownership for any other purpose. Unless otherwise indicated below and except to the extent authority is shared by spouses under applicable law, to our knowledge, each of the persons set forth below has sole voting and investment power with respect to all shares of each class or series of common stock and preferred stock shown as beneficially owned by them. The number of shares of common stock used to calculate each listed person's percentage ownership of each such class includes the shares of common stock underlying options, warrants or other convertible securities held by such person that are exercisable within 60 days after September 30, 2006. There are no currently outstanding options, warrants or other convertible securities exercisable for shares of Series D or Series E Preferred Stock.

There were 52,071,221 shares of our common stock, 3,500,993 shares of Series D Preferred Stock and 500,000 shares of Series E Preferred Stock outstanding as of September 30, 2006. Each share of Series D Preferred Stock and Series E Preferred Stock is immediately convertible at the option of the holder and will automatically convert into shares of our common stock upon the consummation of this offering. Each share of Series D Preferred Stock and Series E Preferred Stock accrues dividends at the rate of 6% per annum. Upon a conversion of Series D Preferred Stock or Series E Preferred Stock, whether at the option of the holder or upon an automatic conversion, all accrued but unpaid dividends are also converted into shares of common stock. Accordingly, the number and percentage of class of common stock columns set forth below include all shares issuable upon conversion of the Series D

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Preferred Stock and/or Series E Preferred Stock, as applicable, including all accrued but unpaid dividends as of September 30, 2006.

	Common Stock Beneficially Owned Prior to this Offering		Shares of Common Stock Being Offered	Common Stock Beneficially Owned After this Offering	
	Number	Percentage		Number	Percentage
<b>Directors and Named Executive Officers(1):</b>					
Roger D. Linquist(2)	2,927,003	2.74%			
J. Braxton Carter(3)	96,298	*			
Robert A. Young(4)	83,122	*			
Mark A. Stachiw(5)	57,202	*			
Malcolm M. Lorang(6)	230,798	*			
John Sculley(7)	449,805	*			
James F. Wade(8)(16)	9,014,427	8.45%			
Arthur C. Patterson(9)	12,488,868	11.70%			
W. Michael Barnes(10)	60,573	*			
C. Kevin Landry(11)(18)	14,125,118	13.24%			
James N. Perry, Jr.(12)(17)	14,088,382	13.20%			
Walker C. Simmons(13)					
All directors and executive officers as a group (12 persons)	53,621,596	50.25%			

	Common Stock Beneficially Owned Prior to this Offering		Shares of Common Stock Being Offered	Common Stock Beneficially Owned After this Offering	
	Number	Percentage		Number	Percentage
<b>Beneficial Owners of More Than 5%:</b>					
Accel Partners, et al(14) 428 University Ave. Palo Alto, CA 94301	12,014,788	11.26%			
First Plaza Group Trust(15) One Chase Manhattan Plaza, 17th Floor New York, NY 10005	7,823,783	7.33%			
M/C Venture Partners, et al(16)(8) 75 State Street Boston, MA 02109	9,014,427	8.45%			
Madison Dearborn Capital Partners IV, L.P.(17)(12) Three First National Plaza, Suite 3800 Chicago, IL 60602	14,088,382	13.20%			
TA Associates, et al(18)(11) John Hancock Tower 56th Floor 200 Clarendon Street Boston, MA 012116	14,125,118	13.24%			

\*  
Represents less than 1%

(1) Unless otherwise indicated, the address of each person is c/o MetroPCS Communications, Inc., 8144 Walnut Hill Lane, Suite 800, Dallas, Texas 75231.

(2)

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Includes 182,388 shares of common stock issuable upon exercise of options granted under our equity compensation plans, 1,507,624 shares of common stock held directly by Mr. Linquist, and

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1,236,991 shares of common stock held by Baltimore 8801 X Ltd. Partners, a partnership in which Mr. Linquist is a general partner.

- (3) Includes 78,514 shares of common stock issuable upon exercise of options granted under our equity compensation plans.
- (4) Includes 40,882 shares of common stock issuable upon exercise of options granted under our equity compensation plans.
- (5) Includes 57,202 shares of common stock issuable upon exercise of options granted under our equity compensation plans.
- (6) Includes 171,398 shares of common stock issuable upon exercise of options granted under our equity compensation plans.
- (7) Includes 183,669 shares of common stock issuable upon exercise of options granted under our equity compensation plans and 67,913 shares of common stock issuable upon the conversion of Series D Preferred Stock, which includes 14,158 shares issuable pursuant to accrued dividends.
- (8) Includes 8,915,395 shares of common stock issuable upon the conversion of Series D Preferred Stock, which includes 1,850,718 shares issuable pursuant to accrued dividends, and 94,419 shares of common stock issuable upon exercise of options granted under our equity compensation plans. All shares attributed to Mr. Wade are owned directly by M/C Venture Investors, LLC, M/C Venture Partners IV, LP, M/C Venture Partners V, LP, and Chestnut Venture Partners LP, with which Mr. Wade is affiliated and may be deemed to be a member of a "group" (hereinafter referred to as M/C Venture Partners, et al) under Section 13d-3 of the Securities Exchange Act of 1934, as amended (the "Exchange Act") and may be deemed to share voting and/or investment power with respect to the shares owned by such entities. Mr. Wade disclaims beneficial ownership of such shares, except to the extent of his interest in such shares arising from his interests in M/C Venture Partners, et al.
- (9) Includes 112,508 shares of common stock issuable upon exercise of options granted to Mr. Patterson under our equity compensation plans and 2,796 shares of common stock held directly by Mr. Patterson. All other shares attributed to Mr. Patterson, including 3,609 shares of common stock issuable upon exercise of stock options granted under our equity compensation plans and 4,422,149 shares of common stock issuable upon the conversion of Series D Preferred Stock, which includes 918,038 shares issuable pursuant to accrued dividends, are owned directly by Accel Internet Fund III L.P., Accel Investors '94 L.P., Accel Investors '99 L.P., Accel IV L.P., Accel Keiretsu L.P., Accel VII L.P., ACP Family Partnership L.P., Ellmore C. Patterson Partners, BrandyTrust Private Equity Partners L.P., Brandywine-Anne Hyde Patterson c/o A.O. Choate, Brandywine-Anne Hyde Patterson Trust U/A 1-31-23, Brandywine-Caroline Choate de Chazal Trust U/A 2-10-56, Brandywine-David C. Patterson U/A 2-10-56, Brandywine-Jane C. Beck Trust U/A 2-10-56, Brandywine-Michael E. Patterson Trust U/A 2-10-56, Brandywine-Robert E. Patterson Trust U/A 2-10-56 and Brandywine-Thomas HC Patterson Trust U/A 2-10-56, with which Mr. Patterson is affiliated and may be deemed to be a member of a "group" under Section 13d-3 of the Exchange Act and may be deemed to share voting and/or investment power with respect to the shares owned by such entities. Mr. Patterson disclaims beneficial ownership of such shares, except to the extent of his interest in such shares arising from his interests in Accel Partners, et al.
- (10) Includes 54,489 shares of common stock issuable upon exercise of options granted under our equity compensation plans.
- (11) Includes 18,332 shares of common stock issuable upon exercise of stock options granted to Mr. Landry under our equity compensation plans. All other shares attributed to Mr. Landry, including 5,368,858 shares of common stock issuable upon the conversion of Series D Preferred

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Stock, which includes 1,099,268 shares issuable pursuant to accrued dividends, and 986,350 shares of common stock issuable upon the conversion of Series E Preferred Stock, which includes 60,426 shares of common stock issuable pursuant to accrued dividends are owned directly by TA Atlantic and Pacific V L.P., TA Investors II L.P., TA IX L.P., TA Strategic Partners Fund A L.P., TA Strategic Partners Fund B L.P. and TA/Atlantic and Pacific IV L.P., with which Mr. Landry is affiliated and may be deemed to be a member of a "group" (hereinafter referred to as TA Associates, et al) under Section 13d-3 of the Exchange Act and may be deemed to share voting and/or investment power with respect to the shares owned by such entities. Mr. Landry disclaims beneficial ownership of such shares, except to the extent of his interest in such shares arising from his interests in TA Associates, et al.

- (12) Includes 14,444 shares of common stock issuable upon exercise of options granted to Mr. Perry under our equity compensation plans. All other shares attributed to Mr. Perry, including 5,351,813 shares of common stock issuable upon the conversion of Series D Preferred Stock, which includes 1,095,304 shares issuable pursuant to accrued dividends, 986,352 shares of common stock issuable upon the conversion of Series E Preferred Stock, which includes 60,426 shares of common stock issuable pursuant to accrued dividends, and 3,611 shares of common stock issuable upon exercise of options granted under our equity compensation plans are held directly by Madison Dearborn Capital Partners IV, L.P., with which Mr. Perry is affiliated and may be deemed to be a member of a "group" (hereinafter referred to as Madison Dearborn Capital Partners IV, L.P., et al) under Section 13d-3 of the Exchange Act and may be deemed to share voting and/or investment power with respect to the shares owned by such entities. Mr. Perry disclaims beneficial ownership of such shares, except to the extent of his interest in such shares arising from his interests in Madison Dearborn Capital Partners IV, L.P., et al.
- (13) Walker Simmons does not own any shares or retain options granted under our equity compensation plans.
- (14) Accel Partners, et al (consisting of Accel Internet Fund III L.P., Accel Investors '94 L.P., Accel Investors '99 L.P., Accel IV LP, Accel Keiretsu L.P., Accel VII L.P., ACP Family Partnership L.P. and Ellmore C. Patterson Partners), may be deemed to be a "group" under Section 13d-3 of the Exchange Act. Includes 4,422,149 shares of common stock issuable upon the conversion of Series D Preferred Stock, which includes 918,038 shares issuable pursuant to accrued dividends, 116,117 shares of common stock issuable upon exercise of options granted under our equity compensation plans, 112,508 of which are held directly by Arthur C. Patterson, as discussed in Note 9 above.
- (15) Includes 6,480,480 shares of common stock issuable upon the conversion of Series D Preferred Stock, which includes 279,049 shares issuable pursuant to accrued dividends.
- (16) M/C Venture Partners, et al (consisting of M/C Venture Investors, LLC, M/C Venture Partners IV, LP, M/C Venture Partners V, LP, and Chestnut Venture Partners LP) may be deemed to be a "group" under Section 13d-3 of the Exchange Act. Includes an aggregate of 94,419 shares of common stock issuable upon exercise of options granted under our equity compensation plans and 8,915,395 shares of common stock issuable upon the conversion of Series D Preferred Stock, which includes 1,850,718 shares issuable pursuant to accrued dividends.
- (17) Includes 18,055 shares of common stock issuable upon exercise of options granted under our equity compensation plans, 14,444 of which are held directly by Mr. Perry, 5,351,813 shares of common stock issuable upon the conversion of Series D Preferred Stock, which includes 1,095,304 shares issuable pursuant to accrued dividends, and 986,352 shares of common stock issuable upon the conversion of Series E Preferred Stock, which includes 60,426 shares of common stock issuable pursuant to accrued dividends.

- (18) TA Associates, et al (consisting of TA Atlantic and Pacific V L.P., TA Investors II L.P., TA IX L.P., TA Strategic Partners Fund A L.P., TA Strategic Partners Fund B L.P. and TA/Atlantic and Pacific IV L.P.) may be deemed to be a "group" under Section 13d-3 of the Exchange Act. Includes 18,332 shares of common stock issuable upon exercise of options granted under our equity compensation plans and held directly by Mr. Landry, 5,368,858 shares of common stock issuable upon the conversion of Series D Preferred Stock, which includes 1,099,268 shares issuable pursuant to accrued dividends, and 986,350 shares of common stock issuable upon the conversion of Series E Preferred Stock, which includes 60,426 shares of common stock issuable pursuant to accrued dividends.

**TRANSACTIONS WITH RELATED PERSONS**

Corey A. Linquist co-founded MetroPCS Communications and is the son of our President, Chief Executive Officer and Chairman of our board of directors, Roger D. Linquist, and has served as our Vice President and General Manager, Sacramento since January 2001, and as our Director of Strategic Planning from July 1994 until January 2001. In December 2006, we granted Mr. Corey Linquist 75,000 options to acquire our common stock at an exercise price of \$34.00 per share. In 2005, we paid Mr. Corey Linquist a salary of \$199,250 and a bonus of \$118,300, and we granted him options to purchase up to 33,000 and 5,114 shares of our common stock at an exercise price of \$21.40 and \$21.46, per share, respectively. These options expire on August 3, 2015 and December 30, 2015, respectively. In 2004, we paid Mr. Corey Linquist a salary of \$188,725 and a bonus of \$97,500, and we granted him options to purchase up to 7,639 shares of our common stock at an exercise price of \$14.90 per share. These options expire on March 11, 2014.

Todd C. Linquist, the son of our President, Chief Executive Officer and Chairman of our board of directors, Roger D. Linquist, and husband of Michelle D. Linquist, our Director of Logistics, has held several positions with us since July 1996, and is currently our Staff Vice President, Wireless Data Services. In December 2006, we granted Mr. Todd Linquist 10,000 options to acquire our common stock at an exercise price of \$34.00 per share. In 2005, we paid Mr. Todd Linquist a salary of \$115,227 and a bonus of \$44,147, and we granted him options to purchase up to 8,200 and 1,939 shares of our common stock at an exercise price of \$21.40 and \$21.46 per share, respectively. These options expire on August 3, 2015 and December 30, 2015, respectively. In 2004, we paid Mr. Todd Linquist a salary of \$110,691 and a bonus of \$41,675, and we granted him options to purchase up to 2,849 shares of our common stock at an exercise price of \$14.90 per share. These options expire on March 11, 2014.

Phillip R. Terry, the son-in-law of our President, Chief Executive Officer and Chairman of our board of directors, Roger D. Linquist, has served as our Vice President of Corporate Marketing since December 2003, as our Staff Vice President for Product Management and Distribution Services from April 2002 until December 2003, and as our Director of Field Distribution from April 2001 until April 2002. In December 2006, we granted Mr. Terry 75,000 options to acquire our common stock at an exercise price of \$34.00 per share. In 2005, we paid Mr. Terry a salary of \$179,167 and a bonus of \$91,000, and we granted him options to purchase up to 31,500 and 7,662 shares of our common stock at an exercise price of \$21.40 and \$21.46 per share, respectively. These options expire on August 3, 2015 and December 30, 2015, respectively. In 2004, we paid Mr. Terry a salary of \$168,750 and a bonus of \$55,129. In 2004, we granted Mr. Terry options to purchase up to 16,000 and 11,517 shares of our common stock at an exercise price of \$5.40 and \$14.90 per share, respectively. These options expire on January 27, 2014 and March 11, 2014, respectively.

Michelle D. Linquist, the daughter-in-law of our President, Chief Executive Officer and Chairman of our board of directors, Roger D. Linquist, and wife of Mr. Todd C. Linquist, our Staff Vice President, Wireless Data Services is currently our Director of Logistics and has been an employee since June 2004. Originally, Mrs. Linquist served as our Manager of Logistics. In 2005, we paid Mrs. Linquist a salary of \$90,333 and a bonus of \$9,930, and we granted her options to purchase up to 7,500 shares of our common stock at an exercise price of \$21.46 per share. These options expire on September 21, 2015. In 2004, we paid Mrs. Linquist a salary of \$39,602 and we granted her options to purchase up to 3,800 shares of our common stock at an exercise price of \$12.13 per share. These options expire on September 14, 2014.

Effective as of June 19, 2006, MetroPCS Wireless, Inc. entered into an Interconnection and Traffic Exchange Agreement, or TEA, with Cleveland Unlimited, Inc., d/b/a Revol, or Revol, under which we and Revol provide wireless roaming services to each other. Revol is wholly owned by Cleveland Unlimited, LLC, or CU LLC. M/C Venture Partners and Columbia Capital, two of our largest shareholders, each own 44.6% of the membership interests of CU LLC. Additionally, James F. Wade,



one of our current directors, and Harry F. Hopper, III, one of our former directors, are directors of Revol. Amounts due under the TEA are not fixed. For the first six months of the TEA, plus the later of one month or the date the parties elect to bill each other, traffic is exchanged for no charge. Afterwards, each party pays the other party on a per minute basis for directing telecommunications traffic to its network. This agreement was negotiated as an arms-length transaction and we believe it represents market terms. Our audit committee has reviewed and recommended to our board of directors that this transaction be approved.

**Procedures for Approval of Related Person Transactions**

We have a written policy on authorizations, the Policy on Authorizations, which includes specific provisions for related party transactions. Pursuant to the Policy on Authorizations, related party transactions include related amounts receivable or payable, including sales, purchases, loans, transfers, leasing arrangements and guarantees, and amounts receivable from or payable to related parties.

In the event that a related party transaction is identified, such transaction must be reviewed and approved by our Chief Financial Officer, Chief Executive Officer or our board of directors, depending on the monetary value of the transaction. All related party transactions must be approved by our Senior Vice President and General Counsel and reported to the Vice President Controller for financial statement disclosure purposes. Additionally, related party transactions cannot be approved by the Chief Financial Officer, Chief Executive Officer, Senior Vice President and General Counsel or a member of our board of directors if they are one of the parties in the related party transaction. In such instance, the next higher level of authority must approve that particular related party transaction.

## DESCRIPTION OF CAPITAL STOCK

The following describes our common stock, preferred stock, certificate of incorporation and bylaws that will be in effect at the closing of this offering. This description is a summary only. We encourage you to read the complete text of our certificate of incorporation and bylaws, which are incorporated by reference as exhibits to the registration statement of which this prospectus is a part. These documents will be effective at the time of the offering without substantive change.

Our authorized capital stock will consist of 300,000,000 shares of common stock, par value \$0.0001 per share, and 25,000,000 shares of preferred stock, par value \$0.0001 per share. Immediately prior to this offering, there has been no public market for our common stock. As of September 30, 2006 we had 180 stockholders of record. Although we have applied to list our common stock on \_\_\_\_\_, a market for our common stock may not develop, and if one develops, it may not be sustained.

Upon consummation of this offering, our authorized capital stock will consist of:

\_\_\_\_\_ shares of common stock, par value \$0.0001 per share; and

\_\_\_\_\_ shares of preferred stock, par value \$0.0001 per share.

### Common Stock

Holders of our common stock have the right to vote on every matter submitted to a vote of our stockholders other than any matter on which only the holders of preferred stock are entitled to vote separately as a class. There will be no cumulative voting rights. Accordingly, holders of a majority of shares entitled to vote in an election of directors will be able to elect all of the directors standing for election.

Subject to preferences that may be applicable to any outstanding preferred stock, the holders of common stock will share equally on a per share basis any dividends when, as and if declared by the board of directors out of funds legally available for that purpose. If we are liquidated, dissolved or wound up, the holders of our common stock will be entitled to a ratable share of any distribution to stockholders, after satisfaction of all of our liabilities and of the prior rights of any outstanding class of preferred stock. Our common stock will carry no preemptive or other subscription rights to purchase shares of our common stock and will not be convertible, assessable or entitled to the benefits of any sinking fund.

### *Redemption*

If a holder of common stock acquires additional shares of common stock or otherwise is attributed with ownership of such shares that would cause us to violate FCC rules, we may, at the option of our board of directors, redeem shares of common stock sufficient to eliminate the violation (or to allow us to comply with the alternative structure). In the event of a violation of the FCC's foreign ownership restrictions, we must first redeem the stock of the foreign stockholder that most recently purchased its first shares of our stock.

The redemption price will be a price mutually determined by us and our stockholders, but if no agreement can be reached, the redemption price will be either:

75% of the fair market value of the common stock being redeemed, if the holder caused the FCC violation; or

100% of the fair market value of the common stock being redeemed, if the FCC violation was not caused by the holder.

For a discussion of the FCC's ownership restrictions, please see "Business Ownership Restrictions."

## **Preferred Stock**

Subject to the provisions of our certificate of incorporation and limitations prescribed by law, our board of directors has the authority to issue up to 25,000,000 shares of preferred stock in one or more series and to fix the rights, preferences, privileges and restrictions of the preferred stock, including dividend rights, dividend rates, conversion rates, voting rights, terms of redemption, redemption prices, liquidation preferences and the number of shares constituting any series or the designation of the series, which may be superior to those of common stock, without further vote or action by the stockholders. After giving effect to the conversion of our Series D and Series E preferred stock into common stock in connection with this offering, we will have no shares of preferred stock outstanding. We have no present plans to issue any shares of preferred stock.

One of the effects of undesignated preferred stock may be to enable our board of directors to render more difficult or to discourage an attempt to obtain control of us by means of a tender offer, proxy contest, merger or otherwise, and as a result, protect the continuity of our management. The issuance of shares of the preferred stock under the board of directors' authority described above may adversely affect the rights of the holders of common stock. For example, preferred stock issued by us may rank prior to the common stock as to dividend rights, liquidation preference or both, may have full or limited voting rights and may be convertible into shares of common stock. Accordingly, the issuance of shares of preferred stock may discourage bids for the common stock or may otherwise adversely affect the market price of the common stock.

## **Registration Rights Agreement**

The stockholder parties to a registration rights agreement that will become effective upon a consummation of this offering, who will collectively hold \_\_\_\_\_ shares of common stock, will be entitled to certain rights with respect to the registration of the sale of such shares under the Securities Act. Under the terms of the registration rights agreement, if we propose to register any of our securities under the Securities Act, either for our own account or for the account of other security holders exercising registration rights, such holders are entitled to notice of such registration and are entitled to include shares in the registration. Stockholders benefiting from these rights may also require us to file a registration statement under the Securities Act at our expense with respect to their shares of common stock, and we are required to use our best efforts to effect such registration. Further, these stockholders may require us to file additional registration statements on Form S-3 at our expense. These rights are subject to certain conditions and limitations, among them the rights of underwriters to limit the number of shares included in such registration and limit such stockholder's right to sell securities during the 180 days following our initial public offering of our common stock.

## **Anti-takeover Effects of Delaware Law and Our Restated Certificate of Incorporation and Restated Bylaws**

### *Delaware Anti-Takeover Statute*

We are a Delaware corporation and are subject to Delaware law, which generally prohibits a publicly held Delaware corporation from engaging in a "business combination" with an "interested stockholder" for a period of three years after the time that the person became an interested stockholder, unless:

before such time the board of directors of the corporation approved either the business combination or the transaction in which the person became an interested stockholder;

upon consummation of the transaction that resulted in the stockholder becoming an interested stockholder, the interested person owns at least 85% of the voting stock of the corporation

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outstanding at the time the transaction commenced, excluding shares owned by persons who are directors and also officers of the corporation and by certain employee stock plans; or

at or after such time the business combination is approved by the board of directors of the corporation and authorized at an annual or special meeting of stockholders, and not by written consent, by the affirmative vote of at least 66<sup>2</sup>/<sub>3</sub>% of the outstanding voting stock of the corporation that is not owned by the interested stockholder.

A "business combination" generally includes mergers, asset sales and similar transactions between the corporation and the interested stockholder, and other transactions resulting in a financial benefit to the stockholder. An "interested stockholder" is a person:

who, together with affiliates and associates, owns 15% or more of the corporation's outstanding voting stock; or

who is an affiliate or associate of the corporation and, together with his or her affiliates and associates, has owned 15% or more of the corporation's outstanding voting stock within three years.

The provisions of Delaware law described above would make more difficult or discourage a proxy contest or acquisition of control by a holder of a substantial block of our stock or the removal of the incumbent board of directors. Such provisions could also have the effect of discouraging an outsider from making a tender offer or otherwise attempting to obtain control of our Company, even though such an attempt might be beneficial to us and our stockholders.

### *Limitations on Liability and Indemnification of Officers and Directors*

Our certificate of incorporation and bylaws:

eliminate the personal liability of directors for monetary damages resulting from breaches of fiduciary duty to the extent permitted by Delaware law, except (i) for any breach of a director's duty of loyalty to the company or its stockholders, (ii) for acts or omissions not in good faith or which involved intentional misconduct or a knowing violation of law, or (iii) for any transaction from which the director derived an improper personal benefit; and

indemnify directors and officers to the fullest extent permitted by Delaware law, including in circumstances in which indemnification is otherwise discretionary.

We believe that these provisions are necessary to attract and retain qualified directors and officers.

We have also entered into separate indemnification agreements with each of our directors and officers under which we have agreed to indemnify, and to advance expenses to, each director and officer to the fullest extent permitted by applicable law with respect to liabilities they may incur in their capacities as directors and officers.

### *Classified Board of Directors*

Prior to the consummation of this offering, our certificate of incorporation and bylaws will be amended to provide for a board of directors consisting of three divisions of directors, each serving staggered three-year terms. At each annual meeting of stockholders, directors will be elected to succeed the class of directors whose terms have expired. The terms of the first, second and third divisions will expire in 2007, 2008 and 2009, respectively. The first division will consist of three directors, two of whom are currently appointed and one vacancy, and each of the second and third divisions will consist of three directors. The classification of our board of directors could have the effect of delaying or preventing a change in control or otherwise discouraging a potential acquirer from attempting to obtain control of us. However, we believe that this feature of our certificate of incorporation will help to

assure the continuity and stability of our business strategies and policies as determined by the board of directors.

***Advanced Notice Requirements***

Our bylaws also require that any stockholder proposals to be considered at an annual meeting of stockholders must be delivered to us not less than 20 nor more than 60 days prior to the meeting. In addition, in the notice of any such proposal, the proposing stockholder must state the proposals, the reasons for the proposal, the stockholder's name and address, the class and number of shares held by such stockholder and any material interest of the stockholder in the proposals. There are additional informational requirements in connection with a proposal concerning a nominee for the board of directors.

***Amendments to Organizational Documents***

Delaware law provides generally that the affirmative vote of a majority of shares entitled to vote on any matter is required to amend a corporation's certificate of incorporation or bylaws, unless either a corporation's certificate of incorporation or bylaws require a greater percentage. Our restated certificate of incorporation will provide that the affirmative vote of at least % of our capital stock issued and outstanding and entitled to vote (in accordance with our restated certificate of incorporation) will be required to amend or repeal certain provisions of our restated certificate of incorporation that are designed to protect against takeovers unless such amendments are approved by % of our board of directors. In addition, our restated bylaws will provide that an amendment to our bylaws by shareholder action will require the affirmative vote of at least % of our capital stock issued and outstanding and entitled to vote.

**Corporate Opportunities**

Our certificate of incorporation provides, as permitted by the Delaware General Corporation Act, that our non-employee directors have no obligation to offer us a corporate opportunity to participate in business opportunities presented to them or their respective affiliates even if the opportunity is one that we might reasonably have pursued, unless such corporate opportunity is offered to such director in his or her capacity as a director of our company. Stockholders will be deemed to have notice of and consented to this provision of our certificate of incorporation.

**Listing of Common Stock**

We will apply to list our common stock on \_\_\_\_\_ under the symbol \_\_\_\_\_.

**Transfer Agent and Registrar**

The transfer agent and registrar for our common stock is \_\_\_\_\_.

### SHARES ELIGIBLE FOR FUTURE SALE

Prior to this offering, there has been no public market for any class of our capital stock, and a significant public market for our common stock may not develop or be sustained after this offering. Future sales of significant amounts of our capital stock, including shares of our outstanding stock and shares of our stock issued upon exercise of outstanding options, in the public market after this offering, or the perception that such sales could occur, could adversely affect the prevailing market price of our common stock and could impair our future ability to raise capital through the sale of our equity securities.

#### Sale of Restricted Shares and Lock-Up Agreements

Upon the closing of this offering, we will have outstanding \_\_\_\_\_ shares of common stock based upon our shares outstanding as of \_\_\_\_\_, and after giving effect to the conversion of all shares of our Series D preferred stock and Series E preferred stock. See "Description of Capital Stock."

Of these shares, the \_\_\_\_\_ shares of common stock sold in this offering will be freely tradable without restriction under the Securities Act, unless purchased by affiliates of our company, as that term is defined in Rule 144 under the Securities Act, and an additional \_\_\_\_\_ shares will be freely tradable pursuant to Rule 144(k) under the Securities Act.

All shares of our common stock are held by holders who are subject to a stockholders agreement, and our executive officers and directors who are not stockholders will be subject to a lock-up agreement, pursuant to which, subject to certain exceptions, these holders, executive officers and directors have agreed not to sell or otherwise dispose of their shares of common stock or any securities convertible into or exchangeable for shares of common stock for a period of 180 days after the date of this prospectus. \_\_\_\_\_ and \_\_\_\_\_, as representatives of the underwriters may, in their sole discretion and at any time without notice, release all or any portion of the securities subject to the lock-up agreements. See "Underwriting."

#### Rule 144

In general, Rule 144 allows a stockholder (or stockholders where shares are aggregated), including an affiliate, who has beneficially owned shares of our common stock for at least one year and who files a Form 144 with the SEC to sell within any three month period commencing 90 days after the date of this prospectus a number of those shares that does not exceed the greater of:

1.0% of the number of then outstanding shares of common stock, which will equal approximately \_\_\_\_\_ shares after the consummation of this offering; or

the average weekly trading volume of the common stock during the four calendar weeks preceding the filing of the Form 144 with respect to such sale.

Approximately \_\_\_\_\_ shares of our common stock will become available for sale, subject to the volume limitations of Rule 144, after the expiration of the lock-up period. The remaining shares of our common stock will become available for sale, subject to the volume limitation of Rule 144, at various times after the expiration of the lock-up period and upon expiration of the one-year holding periods required by Rule 144.

Sales under Rule 144, however, are subject to specific manner of sale provisions, notice requirements, and the availability of current public information about us. We cannot estimate the number of shares of common stock our existing stockholders will sell under Rule 144, as this will depend on the market price for our common stock, the personal circumstances of the stockholders and other factors.

### Rule 144(k)

Under Rule 144(k), in general, a stockholder who has beneficially owned shares of our common stock for at least two years and who is not deemed to have been an affiliate of our company at any time during the immediately preceding 90 days may sell shares without complying with the manner of sale provisions, notice requirements, public information requirements, or volume limitations of Rule 144. Affiliates of our company, however, must always sell pursuant to Rule 144, even after the otherwise applicable Rule 144(k) holding periods have been satisfied.

### Rule 701

Rule 701 generally allows a stockholder who purchased shares of our common stock pursuant to a written compensatory plan or contract and who is not deemed to have been an affiliate of our company during the immediately preceding 90 days to sell these shares in reliance upon Rule 144, but without being required to comply with the public information, holding period, volume limitation or notice provisions of Rule 144. Rule 701 also permits affiliates of our company to sell their Rule 701 shares under Rule 144 without complying with the holding period requirements of Rule 144. All holders of Rule 701 shares, however, are required to wait until 90 days after the date of this prospectus before selling such shares pursuant to Rule 701.

As of \_\_\_\_\_, 200\_\_\_\_, \_\_\_\_\_ shares of our common stock had been issued to some of our management employees in reliance on Rule 701.

### Registration Rights

The stockholder parties to our registration rights agreement that will become effective upon consummation of this offering, who will collectively hold \_\_\_\_\_ shares of common stock, will be entitled to certain rights with respect to the registration of the sale of such shares under the Securities Act. Under the terms of the registration rights agreement, if we propose to register any of our securities under the Securities Act, either for our own account or for the account of other security holders exercising registration rights, such holders are entitled to notice of such registration and are entitled to include shares in the registration. Stockholders benefiting from these rights may also require us to file a registration statement under the Securities Act at our expense with respect to their shares of common stock, and we are required to use our best efforts to effect such registration. Further, these stockholders may require us to file additional registration statements on Form S-3 at our expense. These rights are subject to certain conditions and limitations, among them the exclusion from registration of any shares that could be sold pursuant to Rule 144(k) as well as the rights of underwriters to limit the number of shares included in such registration. All stockholder parties to our registration rights agreement shall not sell or otherwise dispose of their securities for a period of 180 days after our initial public offering.

By exercising their registration rights and causing a large number of shares to be sold in the public market, these holders could cause the market price of our common stock to decline. See "Description of Capital Stock Registration Rights Agreement"

### Options

In addition to the shares of our common stock outstanding immediately after this offering, as of \_\_\_\_\_, 200\_\_\_\_, there were outstanding options to purchase \_\_\_\_\_ shares of our common stock. An additional \_\_\_\_\_ shares of common stock have been reserved for issuance pursuant to our equity compensation plans.

As soon as practicable after the closing of this offering, we intend to file a registration statement on Form S-8 under the Securities Act covering shares of our common stock issued or reserved for

issuance under our equity compensation plans. Accordingly, shares of our common stock registered under such registration statement will be available for sale in the open market upon exercise by the holders, subject to vesting restrictions with us, contractual lock-up restrictions and/or market stand-off provisions applicable to each option agreement that prohibit the sale or other disposition of the shares of common stock underlying the options for a period of \_\_\_\_\_ days after the date of this prospectus without the prior written consent from us or our underwriters.



**MATERIAL UNITED STATES FEDERAL TAX CONSIDERATIONS FOR NON-U.S. HOLDERS**

The following is a discussion of the material U.S. federal income and estate tax consequences of the acquisition, ownership and disposition of our common stock purchased pursuant to this offering by a stockholder that, for U.S. federal income tax purposes, is not a "U.S. person," as we define that term below. A beneficial owner of our common stock who is not a U.S. person is referred to below as a "non-U.S. holder." This discussion is based upon current provisions of the Internal Revenue Code of 1986, as amended, or the Code, Treasury regulations promulgated thereunder, judicial opinions, administrative pronouncements and published rulings of the U.S. Internal Revenue Service, (or the IRS) all as in effect as of the date of this prospectus. These authorities may be changed, possibly retroactively, resulting in U.S. federal tax consequences different from those discussed below. We have not sought, and will not seek, any ruling from the IRS or opinion of counsel with respect to the statements made in this discussion, and there can be no assurance that the IRS will not take a position contrary to such statements or that any such contrary position taken by the IRS would not be sustained.

This discussion is limited to non-U.S. holders who purchase our common stock issued pursuant to this offering and who hold our common stock as a capital asset (generally, property held for investment). This discussion also does not address the tax considerations arising under the laws of any foreign, state or local jurisdiction, or under United States federal estate or gift tax laws (except as specifically described below). In addition, this discussion does not address tax considerations that may be applicable to an investor's particular circumstances or to investors that may be subject to special tax rules, including, without limitation:

banks, insurance companies or other financial institutions;

U.S. expatriates;

tax-exempt organizations;

tax-qualified retirement plans;

dealers in securities or currencies;

traders in securities that elect to use a mark-to-market method of accounting for their securities holdings; or

persons that will hold common stock as a position in a hedging transaction, "straddle" or "conversion transaction" for tax purposes.

If a partnership (including any entity treated as a partnership for U.S. federal income tax purposes) is a stockholder, the tax treatment of a partner in the partnership will generally depend upon the status of the partner and the activities of the partnership. A stockholder that is a partnership, and partners in such partnership, are encouraged to consult their own tax advisors regarding the tax consequences of the purchase, ownership and disposition of our common stock.

For purposes of this discussion, a U.S. person means any one of the following:

a citizen or resident of the United States;

a corporation (including any entity treated as a corporation for U.S. federal income tax purposes) or partnership (including any entity treated as a partnership for U.S. federal income tax purposes) created or organized under the laws of the United States or of any political subdivision of the United States;

an estate the income of which is subject to U.S. federal income taxation regardless of its source; or

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a trust, (i) the administration of which is subject to the primary supervision of a U.S. court and one or more U.S. persons have the authority to control all substantial decisions of the trust, or

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other trusts considered U.S. persons for U.S. federal income tax purposes, or (ii) that has a valid election in effect to be treated as a U.S. person.

**You are urged to consult your tax advisor with respect to the application of the U.S. federal income tax laws to your particular situation as well as any tax consequences arising under the federal estate or gift tax rules or under the laws of any state, local, foreign or other taxing jurisdiction or under any applicable tax treaty.**

### Dividends

If distributions are paid on shares of our common stock, these distributions will constitute dividends for U.S. federal income tax purposes to the extent paid from our current or accumulated earnings and profits, as determined under U.S. federal income tax principles. To the extent a distribution exceeds our current and accumulated earnings and profits, it will constitute a return of capital that is applied against and reduces, but not below zero, your adjusted tax basis in our common stock. Any remainder will constitute gain on the common stock and will be treated as described under "Gain on Disposition of Common Stock," below. Dividends paid to a non-U.S. holder will generally be subject to withholding of U.S. federal income tax at the rate of 30% or such lower rate as may be specified by an applicable income tax treaty. If the dividend is effectively connected with the non-U.S. holder's conduct of a trade or business in the United States or, if a tax treaty applies, attributable to a U.S. permanent establishment maintained by the non-U.S. holder, the dividend will not be subject to any withholding tax (provided specific certification requirements are met, as described below) but will be subject to U.S. federal income tax imposed on net income on the same basis that applies to U.S. persons generally. A corporate stockholder under certain circumstances also may be subject to a 30% (or such lower rate as may be specified by an applicable income tax treaty) branch profits tax on such effectively connected dividend income, connected earnings and profits for the taxable year.

In order to claim the benefit of a tax treaty or to claim exemption from withholding because the income is effectively connected with the conduct of a trade or business in the United States, a non-U.S. holder must provide a properly executed IRS Form W-8BEN for treaty benefits or W-8ECI for effectively connected income, or such successor forms as the IRS designates, prior to the payment of dividends. These forms must be periodically updated. Non-U.S. holders may obtain a refund of any excess amounts withheld by timely filing an appropriate claim for refund.

### Gain on Disposition of Common Stock

A non-U.S. holder will generally not be subject to U.S. federal income tax, including by way of withholding, on gain recognized on a sale or other disposition of our common stock unless any one of the following is true:

the gain is effectively connected with the non-U.S. holder's conduct of a trade or business in the U.S. or, if a tax treaty applies, attributable to a U.S. permanent establishment maintained by such non-U.S. holder;

the non-U.S. holder is a nonresident alien individual present in the United States for 183 days or more in the taxable year of the disposition and certain other requirements are met; or

we are a "United States real property holding corporation" or "USRPHC" for U.S. federal income tax purposes at any time during the shorter of the period during which you hold our common stock or the five-year period ending on the date you dispose of our common stock and either (i) the non-U.S. holder has not held more than 5% of our outstanding common stock at any time during such period, or (ii) our common stock ceases to be regularly traded on an established securities market.

We believe that we are not currently and will not become a USRPHC. However, because the determination of whether we are a USRPHC depends on the fair market value of our United States

real property interests relative to the fair market value of our other business assets, there can be no assurance that we will not become a USRPHC in the future.

Unless an applicable treaty provides otherwise, gain described in the first bullet point above will be subject to the U.S. federal income tax imposed on net income on the same basis that applies to U.S. persons generally but will generally not be subject to withholding. Corporate stockholders also may be subject to a branch profits tax on such gain. Gain described in the second bullet point above will be subject to a flat 30% U.S. federal income tax, which may be offset by U.S. source capital losses. Non-U.S. holders should consult any applicable income tax treaties that may provide for different rules.

#### **U.S. Federal Estate Taxes**

Common stock owned or treated as owned by an individual who at the time of death is a non-U.S. holder will be included in his or her estate for U.S. federal estate tax purposes, unless an applicable estate tax treaty provides otherwise.

#### **Information Reporting and Backup Withholding**

Under U.S. Treasury regulations, we must report annually to the IRS and to each non-U.S. holder the amount of dividends paid to such non-U.S. holder and the tax withheld with respect to those dividends. These information reporting requirements apply even if withholding was not required because the dividends were effectively connected dividends or withholding was reduced or eliminated by an applicable tax treaty. Pursuant to an applicable tax treaty, that information may also be made available to the tax authorities in the country in which the non-U.S. holder resides.

The United States generally imposes a backup withholding tax on dividends and specific other types of payments to certain non-corporate holders who fail to furnish certain required information. Backup withholding will generally not apply to payments of dividends made by us or our paying agents, in their capacities as such, to a non-U.S. holder of our common stock if the stockholder has provided the required certification that it is not a U.S. person or certain other requirements are met. Notwithstanding the foregoing, backup withholding may apply if either we or our paying agent has actual knowledge, or reason to know, that the stockholder is a U.S. person.

Payments of the proceeds from a disposition or a redemption effected outside the United States by a non-U.S. holder of our common stock made by or through a foreign office of a broker generally will not be subject to information reporting or backup withholding. However, information reporting, but not backup withholding, generally will apply to such a payment if the broker has certain connections with the United States unless the broker has documentary evidence in its records that the beneficial owner is a non-U.S. holder and specified conditions are met or an exemption is otherwise established.

Payment of the proceeds from a disposition by a non-U.S. holder of common stock made by or through the U.S. office of a broker is generally subject to information reporting and backup withholding unless the non-U.S. holder certifies that it is not a U.S. person under penalties of perjury and such broker does not have actual knowledge, or reason to know, that the stockholder is a U.S. person, or the non-U.S. holder otherwise establishes an exemption from information reporting and backup withholding.

Backup withholding is not an additional tax. Any amounts that we withhold under the backup withholding rules will be credited against the non-U.S. holder's U.S. actual federal income tax liability and, if the amounts so withheld exceed the non-U.S. holder's actual U.S. federal income tax liability, a refund may be obtained from the IRS if certain required information is furnished by the non-U.S. holder to the IRS. Non-U.S. holders are urged to consult their own tax advisors regarding application of backup withholding in their particular circumstance and the availability of, and procedure for obtaining an exemption from, backup withholding under current Treasury regulations.

**UNDERWRITING**

We and the selling stockholders intend to offer the shares of our common stock through the underwriters. Subject to the terms and conditions described in an underwriting agreement among us, the selling stockholders and Bear, Stearns & Co. Inc., Banc of America Securities LLC, Merrill Lynch, Pierce, Fenner & Smith Incorporated and Morgan Stanley & Co. Incorporated as joint book-running managers for this offering, we and the selling stockholders have agreed to sell to the underwriters, and the underwriters severally have agreed to purchase from us and the selling stockholders, the number of shares of common stock listed opposite their names below.

<b>Underwriter</b>	<b>Number of Shares</b>
Bear, Stearns & Co. Inc.	
Banc of America Securities LLC	
Merrill Lynch, Pierce, Fenner & Smith Incorporated	
Morgan Stanley & Co. Incorporated	
<b>Total</b>	

The underwriters have agreed to purchase all of the shares sold under the underwriting agreement if any of these shares are purchased. If an underwriter defaults, the underwriting agreement provides that the purchase commitments of the non-defaulting underwriters may be increased or the underwriting agreement may be terminated.

We and the selling stockholders have agreed to indemnify the underwriters against certain liabilities, including liabilities under the Securities Act, or to contribute to payments the underwriters may be required to make in respect of those liabilities.

The underwriters are offering the shares, subject to prior sale, when, as and if issued to and accepted by them, subject to approval of legal matters by their counsel, including the validity of the shares, and other conditions contained in the underwriting agreement, such as the receipt by the underwriters of officer's certificates and legal opinions. The underwriters reserve the right to withdraw, cancel or modify offers to the public and to reject orders in whole or in part.

A prospectus in electronic format may be made available on Internet sites or through other online services maintained by one or more of the underwriters and/or selling group members participating in this offering, or by their affiliates. In those cases, prospective investors may view offering terms online and, depending upon the particular underwriter or selling group member, prospective investors may be allowed to place orders online. Certain underwriters may allocate a limited number of shares for sale to online brokerage account holders. Any such allocation for online distributions will be made by the underwriters on the same basis as other allocations.

Other than the prospectus in electronic format, information contained on any other website maintained by an underwriter or selling group member is not part of this prospectus or the registration statement of which this prospectus forms a part, has not been endorsed by us or any underwriter or any selling group member in its capacity as underwriter or selling group member and should not be relied on by prospective investors in deciding whether to purchase any shares of common stock. The underwriters and selling group members are not responsible for information contained in Internet websites that they do not maintain.

In addition, the underwriters may send prospectuses via email as a courtesy to certain of their customers to whom they are concurrently sending a prospectus hard copy.

### Commissions and Discounts

The underwriters have advised us that they propose initially to offer the shares to the public at the public offering price on the cover page of this prospectus and to dealers at that price less a concession not in excess of \$ \_\_\_\_\_ per share. The underwriters may allow, and the dealers may reallow, a discount not in excess of \$ \_\_\_\_\_ per share to other dealers. After the public offering, the public offering price, concession and discount may be changed.

The following table shows the public offering price, underwriting discounts and proceeds before expenses to us.

The information assumes either no exercise or full exercise by the underwriters of their over-allotment option:

	Per Share	Total	
		No Exercise	Full Exercise
Public offering price	\$	\$	\$
Underwriting discounts	\$	\$	\$
Proceeds, before expenses, to MetroPCS	\$	\$	\$
Proceeds, before expenses, to the selling stockholders	\$	\$	\$

The expenses of this offering, excluding the underwriting discount and commissions and related fees, are estimated at \$2.5 million and are payable by us.

### Over-Allotment Option

The selling stockholders have granted the underwriters an option exercisable for 30 days from the date of this prospectus to purchase a total of up to \_\_\_\_\_ additional shares at the public offering price less the underwriting discount. The underwriters may exercise this option solely to cover any over-allotments, if any, made in connection with this offering. To the extent the underwriters exercise this option in whole or in part, each will be obligated, subject to conditions contained in the underwriting agreement, to purchase a number of additional shares approximately proportionate to that underwriter's initial commitment amount reflected in the above table.

If the underwriters sell more shares than could be covered by the over-allotment option, a naked short position would be created that can only be closed out by buying shares in the open market. A naked short position is more likely to be created if the underwriters are concerned that there could be downward pressure on the price of the shares in the open market after pricing that could adversely affect investors who purchase in the offering.

### No Sales of Similar Securities

We, each of our executive officers and directors and all of the holders of our common stock, subject to limited exceptions, will agree not to sell or transfer any shares of our common stock for 180 days after the date of this prospectus (which period could be extended by the underwriters for up to an additional 34 days under certain circumstances) without first obtaining the written consent of Bear, Stearns & Co. Inc.

The 180-day period described in the preceding paragraph will be automatically extended if: (i) during the last 17 days of the 180-day period we issue an earnings release or announce material news or a material event; or (ii) prior to the expiration of the 180-day period, we announce that we will release earnings results during the 15-day period following the last day of the 180-day period, in either of which case the restrictions described in the preceding paragraph will continue to apply until the expiration of the 18-day period beginning on the issuance of the earnings release or the announcement of the material news or material event.

Notwithstanding the foregoing, parties who will agree not to sell or transfer shares of our common stock during such period of time may transfer shares during such period, without the prior written consent of Bear, Stearns & Co. Inc.:

- (i) as a bona fide gift or gifts;
- (ii) to any trust for the direct or indirect benefit of such party or his or her immediate family; or
- (iii) by will or intestate succession;

provided, however, it is a condition to any such transfer that the transferee (or trustee in the case of clause (ii) above) execute an agreement stating that such transferee (or trustee) is receiving and holding shares of our common stock subject to the provisions of the agreement pursuant to which these persons agreed not to sell or transfer shares of our common stock and there shall be no further transfer of shares of our common stock except in accordance with the terms of such agreement; provided, further, that in the case of any such transfer, no filing by any party under the Securities Act or the Securities Exchange Act of 1934 is required in connection with such transfer. The transfer restrictions set forth above do not apply to (i) the registration of the offer to and sale of our common stock as contemplated herein, including the sale of our common stock by any selling stockholder, (ii) any grant to, or exercise of any stock or other awards under our equity incentive plans, or (iii) the transfer, sale or offer to sell of not more than the number of shares sufficient to cover the exercise price and taxes of such employee's options that will expire in connection with such termination following an involuntary termination of employment, *provided* that any such sale, transfer or offer to sell does not occur before the earlier of (A) 85 days following the termination of employment and (B) the remainder of the 180-day period.

#### **Stabilization, Short Positions and Penalty Bids**

The underwriters may engage in over-allotment, stabilizing transactions, syndicate covering transactions and penalty bids in accordance with Regulation M under the Securities Exchange Act of 1934.

Over-allotment involves syndicate sales in excess of the offering size, which creates a syndicate short position.

Stabilizing transactions permit bids to purchase the underlying security so long as the stabilizing bids do not exceed a specified maximum.

Syndicate covering transactions involve purchases of the common stock in the open market after the distribution has been completed in order to cover syndicate short positions.

Penalty bids permit the representatives to reclaim a selling concession from a syndicate member when the common stock originally sold by the syndicate member is purchased in a syndicate covering transaction to cover syndicate short positions.

Stabilizing transactions, syndicate covering transactions and penalty bids may cause the price of our common stock to be higher than it would otherwise be in the absence of these transactions. These transactions may be effected on the \_\_\_\_\_ or otherwise and, if commenced, may be discontinued at any time.

#### **Discretionary Shares**

In connection with this offering, the underwriters may allocate shares to accounts over which they exercise discretionary authority. The underwriters do not expect to allocate shares to discretionary accounts in excess of 5% of the total number of shares in this offering.

## Sales in Other Jurisdictions

Each of the underwriters may arrange to sell shares in certain jurisdictions outside the United States through affiliates, either directly where they are permitted to do so or through affiliates.

Each of the underwriters has represented and agreed that:

it has not made or will not make an offer of shares to the public in the United Kingdom within the meaning of section 102B of the Financial Services and Markets Act 2000 (as amended) (FSMA) except to legal entities which are authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities or otherwise in circumstances which do not require the publication by us of a prospectus pursuant to the Prospectus Rules of the Financial Services Authority (FSA);

it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of section 21 of FSMA) to persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 or in circumstances in which section 21 of FSMA does not apply to us; and

it has complied with and will comply with all applicable provisions of FSMA with respect to anything done by it in relation to the shares in, from or otherwise involving the United Kingdom.

The shares will not be offered, directly or indirectly, to the public in Switzerland and this prospectus does not constitute a public offering prospectus as that term is understood pursuant to article 652a or 1156 of the Swiss Federal Code of Obligations.

The shares (i) will not be offered or sold, directly or indirectly, to the public (appel public à l'épargne) in the Republic of France and (ii) offers and sales of shares in the Republic of France (a) will only be made to qualified investors (investisseurs qualifiés) as defined in, and in accordance with, Articles L 411-1, L 411-2 and D 411-1 to D 411-3 of the French Code monétaire et financier or (b) will be made in any other circumstances which do not require the publication by the issuer of a prospectus pursuant to Article L 411-2 of the Code monétaire et financier and Article 211-2 of the Règlement Général of the Autorité des marchés financiers.

Investors are informed that this prospectus has not been admitted to the clearance procedures of the Autorité des marchés financiers, and that any subsequent direct or indirect circulation to the public of the shares so acquired may not occur without meeting the conditions provided for in Articles L 411-1, L 411-2, L 412-2 and L 621-8 to L 621-8-2 of the Code Monétaire et Financier.

In addition, the issuer represents and agrees that it has not distributed or caused to be distributed and will not distribute or cause to be distributed in the Republic of France, this prospectus or any other offering material relating to the shares other than to those investors (if any) to whom offers and sales of the shares in the Republic of France may be made as described above.

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a Relevant Member State), with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the Relevant Implementation Date), it has not made and will not make an offer of shares to the public in that Relevant Member State prior to the publication of a prospectus in relation to the shares which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance with the Prospectus Directive, except that it may, with effect from and



including the Relevant Implementation Date, make an offer of shares to the public in that Relevant Member State at any time:

to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;

to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000 and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts; or

in any other circumstances which do not require the publication by the issuer of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an "offer of shares to the public" in relation to any shares in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the shares to be offered so as to enable an investor to decide to purchase or subscribe the shares, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression "Prospectus Directive" means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

#### **Other Relationships**

Some of the underwriters and their affiliates have engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with us. They have received customary fees and commissions for these transactions. In addition, Bear, Stearns & Co. Inc. and certain of its employees own, in the aggregate, less than 1% of our common stock.

In particular, (i) Bear, Stearns & Co. Inc. acted as lead arranger and joint book running manager under each of our former bridge credit facilities, as sole lead arranger and sole book runner under our former first and second lien secured credit agreements, as joint book running manager in connection with the private placement of our senior notes and as sole lead arranger and joint book runner under our senior secured credit facility, (ii) Bear Stearns Corporate Lending Inc., an affiliate of Bear, Stearns & Co. Inc., acted as a lender and as syndication agent and administrative agent under each of our former bridge credit facilities and our former first lien secured credit agreements, as a lender and syndication agent under our former second lien secured credit agreements and as syndication agent under our senior secured credit facility, (iii) Merrill Lynch, Pierce, Fenner & Smith Incorporated acted as documentation agent under our former first lien secured credit agreements, as joint book running manager in connection with the private placement of our senior notes and as joint book runner under our senior secured credit facility, (iv) Merrill Lynch Capital Corporation, an affiliate of Merrill Lynch, Pierce, Fenner & Smith Incorporated, acted as a joint book running manager and lender under each of our former bridge credit facilities, as a lender under our former first lien secured credit agreements and as administrative agent and lender under our former second lien secured credit agreements, (v) Bank of America, N.A., acted as issuing lender under our senior secured credit facility, (vi) Banc of America Bridge LLC, an affiliate of Banc of America Securities LLC, acted as joint book running manager and lender under each of our former bridge credit facilities, and (vii) Banc of America Securities LLC acted as joint book running manager in connection with the private placement of our senior notes.

#### **Offering Price Determination**

Before this offering, there has been no public market for our common stock. The initial public offering price will be determined by negotiation between the underwriters and us. The principal factors to be considered in determining the public offering price include: the information set forth in this

prospectus and otherwise available to the underwriters; the history and the prospects for the industry in which we will compete; the ability of our management; the prospects for our future earnings; the present state of our development and our current financial condition; the general condition of the securities markets at the time of this offering; and the recent market prices of, and the demand for, publicly traded common stock of generally comparable companies.

### NOTICE TO FOREIGN INVESTORS

The Communications Act of 1934 includes provisions that authorize the FCC to restrict the level of ownership that foreign nationals or their representatives, a foreign government or its representative or any corporation organized under the laws of a foreign country may have in us. For a discussion of these and other FCC ownership restrictions, please see "Business Ownership Restrictions."

If a holder of our common stock acquires additional shares of common stock or otherwise is attributed with ownership of such shares that would cause us to violate FCC ownership restrictions, we may, at the option of our board of directors, redeem shares of common stock sufficient to eliminate the violation. In the event of a violation of the FCC's foreign ownership restrictions, we must first redeem the stock of the foreign stockholder which most recently purchased its first shares of our stock. For a discussion of the redemption features of our common stock, including the prices at which we may redeem such stock, please see "Description of Capital Stock."

### LEGAL MATTERS

Certain legal matters in connection with this offering will be passed upon for us by Baker Botts L.L.P., Dallas, Texas, and Paul, Hastings, Janofsky & Walker LLP, Washington D.C. and for the underwriters by Latham & Watkins LLP, New York, New York.

### EXPERTS

The consolidated financial statements of MetroPCS Communications, Inc. and its wholly-owned and majority-owned subsidiaries as of and for the years ended December 31, 2004 and 2005 included in this prospectus have been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their report appearing herein, and are included in reliance upon the report of such firm given upon their authority as experts in accounting and auditing.

The consolidated financial statements of MetroPCS Communications, Inc. and its subsidiaries for the year ended December 31, 2003 included in this Prospectus have been so included in reliance on the report (which contains an explanatory paragraph that the Company restated its consolidated financial statements for the year ended December 31, 2003 as discussed in Note 2 to the 2004 consolidated financial statements, (not presented herein)) of PricewaterhouseCoopers LLP, an independent registered public accounting firm, given on the authority of said firm as experts in auditing and accounting.

### WHERE YOU CAN FIND MORE INFORMATION

We have filed with the SEC a registration statement on Form S-1 under the Securities Act with respect to the shares of common stock offered by this prospectus. In this prospectus we refer to that registration statement, together with all amendments, exhibits and schedules to that registration statement, as "the registration statement."

As is permitted by the rules and regulations of the SEC, this prospectus, which is part of the registration statement, omits some information, exhibits, schedules and undertakings set forth in the registration statement. For further information with respect to us, and the securities offered by this prospectus, please refer to the registration statement.

Following this offering, we will be required to file current, quarterly and annual reports, proxy statements and other information with the SEC. You may read and copy those reports, proxy statements and other information at the public reference facility maintained by the SEC at 100 F Street, N.E., Washington, D.C. 20549. Copies of this material may also be obtained from the Public Reference Room of the SEC at 100 F Street, N.E., Washington, D.C. 20549 at prescribed rates. Information on the operation of the Public Reference Room may be obtained by calling the SEC at (800) 732-0330. The SEC maintains a Web site at [www.sec.gov](http://www.sec.gov) that contains reports, proxy and information statements and other information regarding registrants that make electronic filings with the SEC using its EDGAR system.

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Stockholders of  
MetroPCS Communications, Inc.  
Dallas, Texas

We have audited the accompanying consolidated balance sheets of MetroPCS Communications, Inc. and subsidiaries (the "Company") as of December 31, 2005 and 2004, and the related consolidated statements of income and comprehensive income, stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of MetroPCS Communications, Inc. as of December 31, 2005 and 2004, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

/s/ DELOITTE & TOUCHE LLP

Dallas, Texas  
August 8, 2006 (January 3, 2007 as to Note 19)

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Shareholders of MetroPCS Communications, Inc.:

In our opinion, the consolidated statements of income and comprehensive income, stockholders' equity and cash flows for the year ended December 31, 2003 present fairly, in all material respects, the results of operations, and cash flows of MetroPCS Communications, Inc. and its subsidiaries for the year ended December 31, 2003 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 2 to the 2004 consolidated financial statements, (not presented herein) the Company has restated its consolidated financial statements for the year ended December 31, 2003.

/s/ PRICEWATERHOUSECOOPERS LLP

Dallas, TX

February 25, 2004, except for "Restatement of Consolidated Financial Statements" under Note 2 for which the date is May 5, 2006 and for "Earnings Per Share" under Note 2 and Note 17 and "Guarantor Subsidiaries" under Note 19 for which the date is December 20, 2006

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## MetroPCS Communications, Inc. and Subsidiaries

## Consolidated Balance Sheets

As of December 31, 2005 and 2004

(in thousands, except share and per share information)

	2005	2004
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 112,709	\$ 22,477
Short-term investments	390,422	36,964
Inventories, net	39,431	33,717
Accounts receivable (net of allowance for uncollectible accounts of \$2,383 and \$2,323 at December 31, 2005 and 2004, respectively)	16,028	9,101
Prepaid expenses	21,430	7,023
Deferred charges	13,270	9,225
Deferred tax asset	2,122	3,574
Security deposits	72	25,007
Other current assets	16,618	9,470
<b>Total current assets</b>	<b>612,102</b>	<b>156,558</b>
Property and equipment, net	831,490	636,368
Restricted cash and investments	2,920	2,293
Long-term investments	5,052	
PCS licenses	681,299	154,144
Microwave relocation costs	9,187	9,566
Other assets	16,931	6,467
<b>Total assets</b>	<b>\$ 2,158,981</b>	<b>\$ 965,396</b>
<b>CURRENT LIABILITIES:</b>		
Accounts payable and accrued expenses	\$ 174,220	\$ 105,541
Current maturities of long-term debt	2,690	14,310
Deferred revenue	56,560	40,424
Other current liabilities	2,147	2,745
<b>Total current liabilities</b>	<b>235,617</b>	<b>163,020</b>
Long-term debt, net	902,864	170,689
Deferred tax liabilities	146,053	73,101
Deferred rents	14,739	10,331
Redeemable minority interest	1,259	1,008
Other long-term liabilities	20,858	21,403
<b>Total liabilities</b>	<b>1,321,390</b>	<b>439,552</b>
<b>COMMITMENTS AND CONTINGENCIES (See Note 10)</b>		
SERIES D CUMULATIVE CONVERTIBLE REDEEMABLE PARTICIPATING PREFERRED STOCK, par value \$0.0001 per share, 4,000,000 shares designated, 3,500,993 shares issued and outstanding at December 31, 2005 and 2004; Liquidation preference of \$426,382 and \$405,376 at December 31, 2005 and 2004, respectively	421,889	400,410
SERIES E CUMULATIVE CONVERTIBLE REDEEMABLE PARTICIPATING PREFERRED STOCK, par value \$0.0001 per share, 500,000 shares designated, 500,000 shares issued and outstanding at December 31, 2005; Liquidation preference of \$51,019 at December 31, 2005	47,796	
<b>STOCKHOLDERS' EQUITY:</b>		
Preferred stock, par value \$0.0001 per share, 25,000,000 and 5,000,000 shares authorized at December 31, 2005 and 2004, 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 (presented above) issued and outstanding at December 31, 2005 and 2004		
Common Stock, par value \$0.0001 per share, 300,000,000 shares authorized, 51,775,698 and 43,431,927 shares issued and outstanding at December 31, 2005 and 2004, respectively	5	4
Additional paid-in capital	149,594	88,493
Subscriptions receivable		(98)
Deferred compensation	(178)	(3,331)

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	<b>2005</b>	<b>2004</b>
	<u>          </u>	<u>          </u>
Retained earnings	216,702	40,637
Accumulated other comprehensive income (loss)	1,783	(271)
	<u>          </u>	<u>          </u>
Total stockholders' equity	367,906	125,434
	<u>          </u>	<u>          </u>
Total liabilities and stockholders' equity	\$ 2,158,981	\$ 965,396
	<u>          </u>	<u>          </u>

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



## MetroPCS Communications, Inc. and Subsidiaries

## Consolidated Statements of Income and Comprehensive Income

For the years ended December 31, 2005, 2004 and 2003

(in thousands, except share and per share information)

	2005	2004	2003
<b>REVENUES:</b>			
Service revenues	\$ 872,100	\$ 616,401	\$ 369,851
Equipment revenues	166,328	131,849	81,258
	<u>1,038,428</u>	<u>748,250</u>	<u>451,109</u>
<b>OPERATING EXPENSES:</b>			
Cost of service (exclusive of depreciation and amortization expense of \$81,196, \$57,572 and \$39,379, shown separately below)	283,212	200,806	122,211
Cost of equipment	300,871	222,766	150,832
Selling, general and administrative expenses (exclusive of depreciation and amortization expense of \$6,699, \$4,629 and \$3,049, shown separately below)	162,476	131,510	94,073
Depreciation and amortization	87,895	62,201	42,428
(Gain) loss on disposal of assets	(218,203)	3,209	392
	<u>616,251</u>	<u>620,492</u>	<u>409,936</u>
Income from operations	422,177	127,758	41,173
<b>OTHER EXPENSE (INCOME):</b>			
Interest expense	58,033	19,030	11,115
Accretion of put option in majority-owned subsidiary	252	8	
Interest income	(8,658)	(2,472)	(996)
Loss (gain) on extinguishment of debt	46,448	(698)	(603)
	<u>96,075</u>	<u>15,868</u>	<u>9,516</u>
Income before provision for income taxes and cumulative effect of change in accounting principle	326,102	111,890	31,657
Provision for income taxes	(127,425)	(47,000)	(16,179)
	<u>198,677</u>	<u>64,890</u>	<u>15,478</u>
Income before cumulative effect of change in accounting principle	198,677	64,890	15,478
Cumulative effect of change in accounting principle, net of tax			(120)
	<u>198,677</u>	<u>64,890</u>	<u>15,358</u>
Net income	198,677	64,890	15,358
Accrued dividends on Series D Preferred Stock	(21,006)	(21,006)	(18,493)
Accrued dividends on Series E Preferred Stock	(1,019)		
Accretion on Series D Preferred Stock	(473)	(473)	(473)
Accretion on Series E Preferred Stock	(114)		
	<u>176,065</u>	<u>43,411</u>	<u>(3,608)</u>
Net income (loss) applicable to common stock	\$ 176,065	\$ 43,411	\$ (3,608)
	<u>198,677</u>	<u>64,890</u>	<u>15,358</u>
Net income	\$ 198,677	\$ 64,890	\$ 15,358
<b>Other comprehensive income:</b>			
Unrealized losses on available-for-sale securities, net of tax	(28)	(240)	(72)
Unrealized gain on cash flow hedging derivative, net of tax	1,914		
Reclassification adjustment for losses included in net income, net of tax	168	41	
	<u>1,954</u>	<u>(199)</u>	<u>(72)</u>
Comprehensive income	\$ 200,731	\$ 64,691	\$ 15,286
<b>Net income (loss) per common share: (See Note 17)</b>			
<b>Basic</b>			
Income (loss) before cumulative effect of change in accounting principle	\$ 2.12	\$ 0.55	\$ (0.10)

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	<u>2005</u>	<u>2004</u>	<u>2003</u>
Cumulative effect of change in accounting principle, net of tax			(0.00)
Net income (loss) per common share - basic	\$ 2.12	\$ 0.55	\$ (0.10)
Diluted			
Income (loss) before cumulative effect of change in accounting principle	\$ 1.87	\$ 0.46	\$ (0.10)
Cumulative effect of change in accounting principle, net of tax			(0.00)
Net income (loss) per common share - diluted	\$ 1.87	\$ 0.46	\$ (0.10)
Weighted average shares:			
Basic	45,117,465	42,240,684	36,443,962
Diluted	51,203,530	50,211,229	36,443,962

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

## MetroPCS Communications, Inc. and Subsidiaries

## Consolidated Statements of Stockholders' Equity

For the years ended December 31, 2005, 2004 and 2003

(in thousands, except share information)

	Number of Shares	Amount	Additional Paid-In Capital	Subscriptions Receivable	Deferred Compensation	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
<b>BALANCE, December 31, 2002</b>	<b>36,423,302</b>	<b>\$ 3</b>	<b>\$ 89,811</b>	<b>\$ (86)</b>	<b>\$ (2,199)</b>	<b>\$ (18,132)</b>		<b>\$ 69,397</b>
Exercise of Class B Common Stock options	65,000		15					15
Exercise of Class C Common Stock options	5,946		28					28
Exercise of Class C Common Stock warrants	225,450							
Accrued interest on subscriptions receivable			6	(6)				
Deferred compensation			7,528		(7,528)			
Amortization of deferred compensation expense					5,573			5,573
Accrued dividends on Series D Preferred Stock			(18,493)					(18,493)
Accretion on Series D Preferred Stock			(473)					(473)
Net income						15,358		15,358
Unrealized loss on available-for-sale securities, net of reclassification adjustment and tax							(72)	(72)
<b>BALANCE, December 31, 2003</b>	<b>36,719,698</b>	<b>\$ 3</b>	<b>\$ 78,422</b>	<b>\$ (92)</b>	<b>\$ (4,154)</b>	<b>\$ (2,774)</b>	<b>(72)</b>	<b>\$ 71,333</b>
Exercise of Common Stock options	211,976		416					416
Exercise of Common Stock warrants	6,500,340		1	43				44
Reverse stock split-fractional shares redeemed	(87)							
Accrued interest on subscriptions receivable			6	(6)				
Deferred stock-based compensation			9,606		(9,606)			
Amortization of deferred stock-based compensation expense					10,429			10,429
Accrued dividends on Series D Preferred Stock						(21,006)		(21,006)
Accretion on Series D Preferred Stock						(473)		(473)
Net income						64,890		64,890
Unrealized loss on available-for-sale securities, net of reclassification adjustment and tax							(199)	(199)
<b>BALANCE, December 31, 2004</b>	<b>43,431,927</b>	<b>\$ 4</b>	<b>\$ 88,493</b>	<b>\$ (98)</b>	<b>\$ (3,331)</b>	<b>\$ 40,637</b>	<b>(271)</b>	<b>\$ 125,434</b>

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

## MetroPCS Communications, Inc. and Subsidiaries

## Consolidated Statements of Stockholders' Equity (Continued)

For the years ended December 31, 2005, 2004 and 2003

(in thousands, except share information)

	Number of Shares	Amount	Additional Paid-In Capital	Subscriptions Receivable	Deferred Compensation	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Common Stock issued	26,479		483					483
Exercise of Common Stock options	7,556,557	1	8,604					8,605
Exercise of Common Stock warrants	760,735		605					605
Accrued interest on subscriptions receivable			5	(5)				
Proceeds from repayment of subscriptions receivable				103				103
Forfeiture of unvested stock compensation			(2,887)		2,887			
Deferred stock-based compensation			2,330		(2,330)			
Amortization of deferred stock-based compensation expense					2,596			2,596
Accrued dividends on Series D Preferred Stock						(21,006)		(21,006)
Accrued dividends on Series E Preferred Stock						(1,019)		(1,019)
Accretion on Series D Preferred Stock						(473)		(473)
Accretion on Series E Preferred Stock						(114)		(114)
Tax benefits from the exercise of Common Stock options			51,961					51,961
Net income						198,677		198,677
Unrealized losses on available-for-sale securities, net of tax							(28)	(28)
Reclassification adjustment for losses included in net income, net of tax							168	168
Unrealized gain on cash flow hedging derivative, net of tax							1,914	1,914
<b>BALANCE, December 31, 2005</b>	<b>51,775,698</b>	<b>\$ 5</b>	<b>\$ 149,594</b>	<b>\$</b>	<b>\$ (178)</b>	<b>\$ 216,702</b>	<b>\$ 1,783</b>	<b>\$ 367,906</b>

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

## MetroPCS Communications, Inc. and Subsidiaries

## Consolidated Statements of Cash Flows

For the years ended December 31, 2005, 2004 and 2003

(in thousands)

	2005	2004	2003
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net income	\$ 198,677	\$ 64,890	\$ 15,358
Adjustments to reconcile net income to net cash provided by operating activities:			
Cumulative effect of change in accounting principle			120
Depreciation and amortization	87,895	62,201	42,428
Provision for uncollectible accounts receivable	129	125	110
Deferred rent expense	4,407	3,466	2,803
Cost of abandoned cell sites	725	1,021	824
Non-cash compensation expense	2,596	10,429	5,573
Non-cash interest expense	4,285	2,889	3,073
(Gain) loss on disposal of assets	(218,203)	3,209	392
Loss (gain) on extinguishment of debt	46,448	(698)	(603)
(Gain) loss on sale of investments	(190)	576	
Accretion of asset retirement obligation	423	253	127
Accretion of put option in majority-owned subsidiary	252	8	
Deferred income taxes	125,055	44,441	18,716
Changes in assets and liabilities:			
Inventories	(5,717)	(16,706)	(7,745)
Accounts receivable	(7,056)	(714)	(1,041)
Prepaid expenses	(2,613)	(1,933)	(182)
Deferred charges	(4,045)	(2,727)	(1,645)
Other assets	(5,580)	(2,243)	(4,131)
Accounts payable and accrued expenses	41,204	(31,304)	21,305
Deferred revenue	16,071	10,317	14,264
Other liabilities	(1,547)	2,879	2,859
Net cash provided by operating activities	283,216	150,379	112,605
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Purchases of property and equipment	(266,499)	(250,830)	(117,731)
Change in prepaid purchases of property and equipment	(11,800)		
Proceeds from sale of property and equipment	146		6
Purchase of other assets			(35)
Purchase of investments	(739,482)	(158,672)	(209,149)
Proceeds from sale of investments	386,444	307,220	22,650
Change in restricted cash and investments	(107)	(1,511)	953
Purchase of FCC licenses	(503,930)	(62,025)	
Deposit to FCC for licenses		(25,000)	(1,500)
Proceeds from sale of FCC licenses	230,000		
Microwave relocation costs		(63)	(2,062)
Net cash used in investing activities	(905,228)	(190,881)	(306,868)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Change in book overdraft	(565)	5,778	824
Payment upon execution of cash flow hedging derivative	(1,899)		
Proceeds from 10 <sup>3</sup> / <sub>4</sub> % Senior Notes Due 2011			145,500
Proceeds from Credit Agreements	902,875		
Proceeds from Bridge Credit Agreement	540,000		
Proceeds from short-term notes payable		1,703	
Debt issuance costs	(29,480)	(164)	(876)
Repayment of debt	(754,662)	(14,215)	(9,077)
Proceeds from minority interest in majority-owned subsidiary		1,000	
Proceeds from repayment of subscriptions receivable	103		

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	<u>2005</u>	<u>2004</u>	<u>2003</u>
Proceeds from issuance of preferred stock, net of issuance costs	46,662	5	65,537
Proceeds from exercise of stock options and warrants	9,210	460	43
	<u>712,244</u>	<u>(5,433)</u>	<u>201,951</u>
<b>Net cash provided by (used in) financing activities</b>	<b>712,244</b>	<b>(5,433)</b>	<b>201,951</b>
	<u>90,232</u>	<u>(45,935)</u>	<u>7,688</u>
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>90,232</b>	<b>(45,935)</b>	<b>7,688</b>
<b>CASH AND CASH EQUIVALENTS, beginning of period</b>	<b>22,477</b>	<b>68,412</b>	<b>60,724</b>
	<u>\$ 112,709</u>	<u>\$ 22,477</u>	<u>\$ 68,412</u>
<b>CASH AND CASH EQUIVALENTS, end of period</b>	<b>\$ 112,709</b>	<b>\$ 22,477</b>	<b>\$ 68,412</b>

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

**MetroPCS Communications, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements**

**December 31, 2005, 2004 and 2003**

**1. Organization and Business Operations:**

MetroPCS Communications, Inc. ("MetroPCS"), a Delaware corporation, together with its wholly- and majority-owned subsidiaries (the "Company"), is a wireless telecommunications carrier that offers wireless broadband personal communication services ("PCS") as of December 31, 2005, primarily in the metropolitan areas of Atlanta, Miami, San Francisco, Sacramento and Tampa/Sarasota. The Company launched service in the Dallas/Ft. Worth metropolitan area in March 2006 and in the Detroit metropolitan area in April 2006. The Company initiated the commercial launch of its first market in January 2002. The Company sells products and services to customers through Company-owned retail stores as well as through relationships with independent retailers.

On February 25, 2004, MetroPCS, Inc. formed MetroPCS, a new wholly-owned subsidiary. In July 2004, MetroPCS, Inc. merged with a subsidiary of MetroPCS pursuant to a transaction that resulted in all of the capital stock (and the options and warrants related thereto) of MetroPCS, Inc. converting into capital stock (and options and warrants) of MetroPCS, and MetroPCS, Inc. becoming a wholly-owned subsidiary of MetroPCS.

On November 24, 2004, MetroPCS, through its wholly-owned subsidiaries, and C9 Wireless, LLC, an independent third-party, formed a limited liability company called Royal Street Communications, LLC ("Royal Street"), to bid on spectrum auctioned by the Federal Communications Commission ("FCC") in Auction No. 58. The Company owns 85% of the limited liability company member interest of Royal Street, but may only elect two of the five members of Royal Street's management committee (See Note 3).

**2. Summary of Significant Accounting Policies:**

*Consolidation*

The accompanying consolidated financial statements include the balances and results of operations of MetroPCS and its wholly- and majority-owned subsidiaries. MetroPCS indirectly owns, through its wholly-owned subsidiaries, a majority interest in Royal Street, and its results of operations are consolidated with MetroPCS. The redeemable minority interest in Royal Street is included in long-term liabilities. All significant intercompany balances and transactions have been eliminated in consolidation. Certain reclassifications of prior period amounts have been made to conform to current period presentation.

*Use of Estimates in Financial Statements*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of certain assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amounts of expenses during the reporting period. Actual results could differ from those estimates. The most significant of such estimates used by the Company include:

allowance for uncollectible accounts receivable;

valuation of inventories;

estimated useful life of assets;

impairment of long-lived assets and indefinite-lived assets;

likelihood of realizing benefits associated with temporary differences giving rise to deferred tax assets;

reserves for uncertain tax positions;

estimated customer life in terms of amortization of certain deferred revenue; and

valuation of Common Stock.

### ***Derivative Instruments and Hedging Activities***

The Company accounts for its hedging activities under Statement of Financial Accounting Standards ("SFAS") No. 133, "*Accounting for Derivative Instruments and Hedging Activities*," as amended ("SFAS No. 133"). The standard requires the Company to recognize all derivatives on the consolidated balance sheet at fair value. Changes in the fair value of derivatives are to be recorded each period in earnings or on the accompanying consolidated balance sheets in accumulated other comprehensive income (loss) depending on the type of hedged transaction and whether the derivative is designated and effective as part of a hedged transaction. Gains or losses on derivative instruments reported in accumulated other comprehensive income (loss) must be reclassified to earnings in the period in which earnings are affected by the underlying hedged transaction and the ineffective portion of all hedges must be recognized in earnings in the current period. The Company's use of derivative financial instruments is discussed in Note 5.

### ***Cash and Cash Equivalents***

The Company includes as cash and cash equivalents (i) cash on hand, (ii) cash in bank accounts, (iii) investments in money market funds, and (iv) corporate bonds with an original maturity of 90 days or less.

### ***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 corporate and government bonds with an original maturity of over 90 days and auction rate securities. Unrealized gains and losses, net of related income taxes, for available-for-sale securities are reported in accumulated other comprehensive income (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 (See Note 4).

### ***Inventories***

Substantially all of the Company's inventories are stated at the lower of average cost or market. Inventories consist mainly of handsets that are available for sale to customers and independent retailers.



*Allowance for Uncollectible Accounts Receivable*

The Company maintains allowances for uncollectible accounts for estimated losses resulting from the inability of independent retailers to pay for equipment purchases and for amounts estimated to be uncollectible from other carriers.

*Prepaid Expenses*

Prepaid expenses consisted of the following (in thousands):

	<u>2005</u>	<u>2004</u>
Prepaid vendor purchases	\$ 11,801	\$
Prepaid rent	6,347	4,065
Prepaid maintenance and support contracts	1,393	609
Prepaid insurance	1,020	1,855
Other	869	494
	<u>          </u>	<u>          </u>
Prepaid expenses	\$ 21,430	\$ 7,023
	<u>          </u>	<u>          </u>

*Property and Equipment*

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

	<u>2005</u>	<u>2004</u>
Construction-in-progress	\$ 98,078	\$ 25,460
Network infrastructure	905,924	712,745
Office equipment	17,059	9,139
Leasehold improvements	16,608	12,145
Furniture and fixtures	4,000	2,444
Vehicles	118	
	<u>          </u>	<u>          </u>
	1,041,787	761,933
	<u>          </u>	<u>          </u>
Accumulated depreciation	(210,297)	(125,565)
	<u>          </u>	<u>          </u>
Property and equipment, net	\$ 831,490	\$ 636,368
	<u>          </u>	<u>          </u>

Property and equipment are stated at cost. Additions and improvements are capitalized, while expenditures that do not enhance or extend the asset's useful life are charged to operating expenses as incurred. When the Company sells, disposes of or retires property and equipment, the related gains or losses are included in operating results. 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, 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. Maintenance and repair costs are charged to expense as incurred. The Company follows the provisions of SFAS No. 34,

"*Capitalization of Interest Cost*," with respect to its PCS licenses and the related construction of its network infrastructure assets. For the years ended December 31, 2005, 2004 and 2003, the Company capitalized interest in the amount of \$3.6 million, \$2.9 million and \$0.1 million, respectively.

#### ***Restricted Cash and Investments***

Restricted cash and investments consist of money market instruments and short-term investments. Short-term investments, which are held-to-maturity, are stated at cost plus accrued interest, which approximates market value, mature within twelve months and are comprised primarily of federal home loan mortgage notes, all denominated in U.S. dollars. In general, these investments are pledged as collateral against letters of credit used as security for payment obligations and are presented as current or non-current assets based on the terms of the underlying letters of credit.

#### ***Revenues and Cost of Revenues***

The Company's wireless services are provided on a month-to-month basis and are paid in advance. Revenues from wireless services are recognized as services are rendered. Amounts received in advance are recorded as deferred revenue. Long-term deferred revenue is included in other long-term liabilities. Cost of service generally includes direct costs of operating the Company's networks.

Effective July 1, 2003, the Company adopted Emerging Issues Task Force ("EITF") No. 00-21, "*Accounting for Revenue Arrangements with Multiple Deliverables*," ("EITF No. 00-21"). The consensus also supersedes certain guidance set forth in U.S. Securities and Exchange Commission ("SEC") 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*," ("SAB 104"). 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.

The Company determined that the sale of wireless services through its direct and indirect sales channels with an accompanying handset constitutes a revenue arrangement with multiple deliverables. Upon adoption of EITF No. 00-21, the Company 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.

Equipment revenues arise from the sale of handsets and accessories. Revenues and related costs from the sale of handsets in the direct retail locations are recognized at the point of sale. Handsets shipped to independent retailers are recorded as deferred revenue and deferred cost upon shipment by the Company and are recognized as equipment revenues and related costs when service is activated by its customers. Revenues and related costs from the sale of accessories are recognized at the point of sale. The costs of handsets and accessories sold are recorded in cost of equipment.

Sales incentives offered without charge to customers related to the sale of handsets are recognized as a reduction of revenue when the related equipment revenue is recognized. At December 31, 2005,

customers had the right to return handsets within 7 days or 60 minutes of usage, whichever occurred first. In January 2006, the Company expanded the terms of its return policy to allow customers the right to return handsets within 30 days or 60 minutes of usage, whichever occurs first.

Prior to July 1, 2003, activation fees were deferred and amortized over the estimated customer life. On October 1, 2003, the Company changed its 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.

#### ***Software Costs***

In accordance with Statement of Position ("SOP") 98-1, "*Accounting for Costs of Computer Software Developed or Obtained for Internal Use*," ("SOP 98-1"), certain costs related to the purchase of internal use software are capitalized and amortized over the estimated useful life of the software. For the years ended December 31, 2005 and 2004, the Company capitalized approximately \$2.7 million and \$0.9 million, respectively, of purchased software costs under SOP 98-1, that is being amortized over a three-year life. The Company amortized computer software costs of approximately \$0.8 million, \$0.4 million and \$0.3 million for the years ended December 31, 2005, 2004 and 2003, respectively. Capitalized software costs are classified as office equipment.

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

The Company operates broadband personal communication services 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 the Company's licensed spectrum if the Company's spectrum interfered with their systems and/or reimburse other carriers (according to FCC rules) that relocated prior users if the relocation benefits the Company's system. Additionally, as discussed in Note 10, the Company incurred costs related to microwave relocation in constructing its 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 PCS 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 licenses. As such, under the provisions of SFAS No. 142, "*Goodwill and Other Intangible Assets*," the Company does not amortize PCS licenses and microwave relocation costs as they are considered to have indefinite lives and together represent the cost of the Company's spectrum. The Company is required to test indefinite-lived intangible assets, consisting of PCS licenses and microwave relocation costs, for impairment on an annual basis based upon a fair value approach. Indefinite-lived intangible assets must be tested between annual tests if events or changes in circumstances indicate that the asset might be impaired. These events or circumstances could include a significant change in the business climate, including a significant sustained decline in an entity's market value, legal factors, operating performance indicators, competition, sale or disposition of a significant portion of the business, or other factors. The Company completed its impairment tests during the third quarter and no impairment has been recognized through December 31, 2005.

***Advertising and Promotion Costs***

Advertising and promotion costs are expensed as incurred. Advertising costs totaled \$25.6 million, \$22.2 million and \$21.5 million during the years ended December 31, 2005, 2004 and 2003, respectively.

***Income Taxes***

The Company records income taxes pursuant to SFAS No. 109, "*Accounting for Income Taxes*," ("SFAS No. 109"). SFAS No. 109 uses an asset and liability approach to account for income taxes, wherein deferred taxes are provided for book and tax basis differences for assets and liabilities. In the event differences between the financial reporting basis and the tax basis of the Company's assets and liabilities result in deferred tax assets, a valuation allowance is provided for a portion or all of the deferred tax assets when there is sufficient uncertainty regarding the Company's ability to recognize the benefits of the assets in future years.

The Company establishes reserves when, despite the belief that the Company's tax return positions are fully supportable, the Company believes that certain positions it has taken might be challenged and ultimately might not be sustained. The Company adjusts these reserves in light of changing facts and circumstances. The Company's effective tax rate includes the impact of reserve positions and changes to reserves that the Company considers appropriate. A number of years may elapse before a particular matter, for which the Company has established a reserve, is finally resolved. Unfavorable settlement of any particular issue would require the use of cash. Favorable resolution would be recognized as a reduction to the effective rate in the year of resolution. Other long-term liabilities included tax reserves in the amount of \$17.1 million and \$18.9 million at December 31, 2005 and 2004, respectively. Accounts payable and accrued expenses included tax reserves in the amount of \$4.1 million at December 31, 2005 (See Note 16).

***Other Comprehensive Income***

Unrealized gains and losses on available-for-sale securities and cash flow hedging derivatives are reported in accumulated other comprehensive income (loss) as a separate component of stockholders' equity until realized. Realized gains and losses on available-for-sale securities are included in interest income. Gains or losses on cash flow hedging derivatives reported in accumulated other comprehensive income (loss) are reclassified to earnings in the period in which earnings are affected by the underlying hedged transaction.

***Stock-Based Compensation***

The Company follows the disclosure requirements of SFAS No. 148, "*Accounting for Stock-Based Compensation Transition and Disclosure*," which amends the disclosure requirements of SFAS No. 123, "*Accounting for Stock-Based Compensation*" ("SFAS No. 123") to require prominent disclosure in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results.

As permitted by SFAS No. 123, the Company measures compensation expense for its stock-based employee compensation plans, described further in Note 14, using the intrinsic value method prescribed

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by Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB No. 25").

The Company has adopted the disclosure-only provisions of SFAS No. 123. The following table illustrates the effect on net income applicable to Common Stock (in thousands) and net income per common share as if the Company had elected to recognize compensation costs based on the fair value at the date of grant for the Company's Common Stock awards consistent with the provisions of SFAS No. 123 (See Note 14 for assumptions used in the fair value method):

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Net income (loss) applicable to Common Stock as reported	\$ 176,065	\$ 43,411	\$ (3,608)
Add: Amortization of deferred compensation determined under the intrinsic method for employee stock awards, net of tax	1,584	6,036	2,725
Less: Total stock-based employee compensation expense determined under the fair value method for employee stock awards, net of tax	(3,227)	(5,689)	(1,642)
Net income (loss) applicable to Common Stock pro forma	<u>\$ 174,422</u>	<u>\$ 43,758</u>	<u>\$ (2,525)</u>
<b>Basic net income (loss) per common share:</b>			
As reported	<u>\$ 2.12</u>	<u>\$ 0.55</u>	<u>\$ (0.10)</u>
Pro forma	<u>\$ 2.10</u>	<u>\$ 0.55</u>	<u>\$ (0.07)</u>
<b>Diluted net income (loss) per common share:</b>			
As reported	<u>\$ 1.87</u>	<u>\$ 0.46</u>	<u>\$ (0.10)</u>
Pro forma	<u>\$ 1.86</u>	<u>\$ 0.46</u>	<u>\$ (0.07)</u>

The pro forma amounts presented above may not be representative of the future effects on reported net income since the pro forma compensation expense is allocated over the periods in which options become exercisable, and new option awards may be granted each year.

***Asset Retirement Obligations***

The Company accounts for asset retirement obligations as determined by SFAS No. 143, "Accounting for Asset Retirement Obligations" ("SFAS No. 143") and Financial Accounting Standards Board ("FASB") Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations, an interpretation of FASB Statement No. 143" ("FIN No. 47"). SFAS No. 143 and FIN No. 47 address financial accounting and reporting for legal obligations associated with the retirement of tangible long-lived assets and the related asset retirement costs. SFAS No. 143 requires that companies recognize the fair value of a liability for an asset retirement obligation in the period in which it is incurred. When the liability is initially recorded, the entity capitalizes a cost by increasing the carrying amount of the related long-lived asset. Over time, the liability is accreted to its present value each period, and the capitalized cost is depreciated over the estimated useful life of the related asset. Upon settlement of the liability, an entity either settles the obligation for its recorded amount or incurs a gain or loss upon settlement. The Company adopted SFAS No. 143 on January 1, 2003.

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The Company is subject to asset retirement obligations associated with its cell site operating leases, which are subject to the provisions of SFAS No. 143 and FIN No. 47. Cell site lease agreements may contain clauses requiring restoration of the leased site at the end of the lease term to its original condition, creating an asset retirement obligation. This liability is classified under other long-term liabilities. Landlords may choose not to exercise these rights as cell sites are considered useful improvements. In addition to cell site operating leases, the Company has leases related to switch site, retail, and administrative locations subject to the provisions of SFAS No. 143 and FIN No. 47.

The adoption of SFAS No. 143 resulted in a January 1, 2003 adjustment to record a \$0.7 million increase in the carrying values of property and equipment with a corresponding increase in other long-term liabilities. In addition, \$0.1 million of accretion, before taxes, was recorded to increase the liability to \$0.8 million at adoption. The net effect was to record a loss of approximately \$0.1 million as a cumulative effect adjustment resulting from a change in accounting principle in the Company's consolidated statements of income upon adoption on January 1, 2003.

The following table summarizes the Company's asset retirement obligation transactions (in thousands):

	<u>2005</u>	<u>2004</u>
Beginning asset retirement obligations	\$ 1,893	\$ 1,115
Liabilities incurred	1,206	525
Accretion expense	423	253
	<u>          </u>	<u>          </u>
Ending asset retirement obligations	\$ 3,522	\$ 1,893
	<u>          </u>	<u>          </u>

### *Earnings Per Share*

Basic earnings per share ("EPS") are based upon the weighted average number of common shares outstanding for the period. Diluted EPS is computed in the same manner as EPS after assuming issuance of common stock for all potentially dilutive equivalent shares, whether exercisable or not.

The Series D Cumulative Convertible Redeeming Participating Preferred Stock and Series E Cumulative Convertible Redeeming Participating Preferred Stock are participating securities, such that in the event a dividend is declared or paid on the common stock, the Company must simultaneously declare and pay a dividend on the Series D Cumulative Convertible Redeeming Participating Preferred Stock and Series E Cumulative Convertible Redeeming Participating Preferred Stock as if they had been converted into common stock. The EITF's Topic D-95, "Effect of Participating Convertible Securities on the Computation of Basic Earnings per Share," requires that the preferred stock be included in the computation of basic earnings per share if the effect of inclusion is dilutive. The Company's accounting policy requires the use of the two-class method for its participating securities for earnings per share calculations.

### *Recent Accounting Pronouncements*

In December 2003, the FASB issued a revised interpretation of Accounting Research Bulletin No. 51, "Consolidated Financial Statements," ("FIN No. 46(R)"), which replaces FASB Interpretation

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No. 46, "*Consolidation of Variable Interest Entities*," ("FIN No. 46"). FIN No. 46(R) clarifies and expands current accounting guidance for variable interest entities. FIN No. 46 and FIN No. 46(R) are effective immediately for all variable interest entities created after January 31, 2003, and for variable interest entities prior to February 1, 2003, no later than the end of the first reporting period after March 15, 2004. The adoption of FIN No. 46 and FIN No. 46 (R) did not have a material impact on the Company's financial position or results of operations.

In December 2004, the FASB issued SFAS No. 123(R), "*Share-Based Payment*" ("SFAS No. 123(R)"). SFAS No. 123(R) requires all entities to recognize compensation expense in an amount equal to the fair value of share-based payments, including stock options granted to employees. SFAS No. 123(R) replaces SFAS No. 123 and supersedes APB No. 25 and its related interpretations. This statement will be effective for awards granted, modified or settled in interim periods or fiscal years beginning after December 15, 2005. Although early adoption is allowed, the Company will adopt SFAS No. 123(R) as of the required effective date for calendar year companies, which is January 1, 2006. The Company estimates compensation expense related to the adoption of SFAS No. 123(R) to be approximately \$10.6 million for the year ending December 31, 2006.

In May 2005, the FASB issued SFAS No. 154, "*Accounting Changes and Error Corrections a replacement of APB Opinion No. 20 and FASB Statement No. 3*" ("SFAS No. 154"). SFAS No. 154 replaces APB Opinion No. 20, "*Accounting Changes*" ("APB No. 20"), and SFAS No. 3, "*Reporting Accounting Changes in Interim Financial Statements.*" SFAS No. 154 requires retrospective application to prior periods' financial statements of a voluntary change in accounting principle unless it is impracticable to determine either the period-specific effects or the cumulative effects of the change. APB No. 20 previously required that most voluntary changes in accounting principles be recognized by including in net income in the period of the change the cumulative effect of changing to the new accounting principle. SFAS No. 154 generally will not apply with respect to the adoption of new accounting standards, as new accounting standards usually include specific transition provisions, and will not override transition provisions contained in new or existing accounting literature. SFAS No. 154 is effective for fiscal years beginning after December 15, 2005, and early adoption is permitted for accounting changes and error corrections made in years beginning after the date that SFAS No. 154 was issued. The adoption of this statement is not expected to have a material effect on the financial condition or results of operations of the Company.

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 the financial condition or results of operations of the Company.

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 the financial condition or results of operations of the Company.

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. The Company has not completed its 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. The Company is required to adopt this interpretation by December 31, 2006. The adoption of this statement is not expected to have a material effect on the financial condition or results of operations of the Company.

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. The Company will be required to adopt SFAS No. 157 in the first quarter of fiscal year 2008. The Company has not completed its evaluation of the effect of SFAS No. 157.

### **3. Majority-Owned Subsidiary:**

On November 24, 2004, MetroPCS, through its wholly-owned subsidiaries, together with C9 Wireless, LLC, an independent, unaffiliated third-party, formed a limited liability company, Royal Street, that qualified to bid for closed licenses and to receive bidding credits as a very small business on



open licenses in FCC Auction No. 58. MetroPCS indirectly owns 85% of the limited liability company member interest of Royal Street, but may elect only two of five members of the Royal Street management committee, which has the full power to direct the management of Royal Street. Royal Street holds all licenses won in Auction No. 58. At Royal Street's request and subject to Royal Street's control and direction, MetroPCS is constructing Royal Street's networks and has agreed to purchase, via a resale arrangement, as much as 85% of the engineered service capacity of Royal Street's networks. The results of Royal Street's operations are consolidated with those of MetroPCS and all intercompany balances have been eliminated.

C9 Wireless, LLC has a right to put its interests in Royal Street to MetroPCS at specific future dates based on a contractually determined amount (the "Put Right"). The Put Right represents an unconditional obligation of MetroPCS and its wholly-owned subsidiaries to purchase Royal Street interests from C9 Wireless, LLC. In accordance with SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity," this obligation is recorded as a liability and is measured at each reporting date as the amount of cash that would be required to settle the obligation under the contract terms if settlement occurred at the reporting date.

**4. Short-Term Investments:**

Short-term investments consisted of the following (in thousands):

	<b>2005</b>			
	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Aggregate Fair Value</b>
United States government and agencies	\$ 28,999	\$	\$ (241)	\$ 28,758
Auction rate securities	333,819			333,819
Corporate bonds	27,788	57		27,845
Total short-term investments	\$ 390,606	\$ 57	\$ (241)	\$ 390,422
	<b>2004</b>			
	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Aggregate Fair Value</b>
United States government and agencies	\$ 29,995	\$	\$ (366)	\$ 29,629
Auction rate securities	5,300			5,300
Corporate bonds	2,074		(39)	2,035
Total short-term investments	\$ 37,369	\$	\$ (405)	\$ 36,964

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The cost and aggregate fair values of short-term investments by contractual maturity at December 31, 2005 were as follows (in thousands):

	Amortized Cost	Aggregate Fair Value
Less than one year	\$ 95,156	\$ 95,030
Due in 1 - 2 years	2,000	1,942
Due in 2 - 5 years		
Due after 5 years	293,450	293,450
	\$ 390,606	\$ 390,422
<b>Total</b>		

### 5. Derivative Instruments and Hedging Activities:

On June 27, 2005, MetroPCS Wireless, Inc. ("Wireless") entered into a three-year interest rate cap agreement, as required by Wireless' First Lien Credit Agreement, maturing May 31, 2011, and Second Lien Credit Agreement maturing May 31, 2012 (collectively, the "Credit Agreements"), to mitigate the impact of interest rate changes on 50% of the aggregate debt outstanding thereunder. An interest rate cap represents a right to receive cash if interest rates rise above a contractual strike rate. At December 31, 2005, the interest rate cap agreement has a notional value of \$450.0 million and Wireless 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. Wireless 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, which was \$5.1 million as of December 31, 2005. The change in fair value of \$3.2 million is reported in accumulated other comprehensive income (loss) in the consolidated balance sheets, net of income taxes in the amount of \$1.3 million.

The interest rate cap has been designated as a cash flow hedge. If a derivative is designated as a cash flow hedge and the hedging relationship qualifies for hedge accounting under the provisions of SFAS No. 133, 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 interest expense in the period of the change.

At inception of the hedge 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 hedge, 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.

During the next twelve months, the Company expects to reclassify into earnings gains that are reported in accumulated other comprehensive income (loss) of approximately \$2.8 million, net of income taxes of \$1.8 million, at the time the underlying hedged transaction is realized.

**6. Intangible Assets:**

The changes in the carrying value of intangible assets during the years ended December 31, 2005 and 2004 are as follows (in thousands):

	<u>PCS Licenses</u>	<u>Microwave Relocation Costs</u>
Balance at December 31, 2003	\$ 90,619	\$ 10,000
Additions	63,525	63
Reductions		(497)
	<u>154,144</u>	<u>9,566</u>
Balance at December 31, 2004	\$ 154,144	\$ 9,566
Additions	528,930	
Reductions	(1,775)	(379)
	<u>681,299</u>	<u>9,187</u>
Balance at December 31, 2005	\$ 681,299	\$ 9,187

PCS licenses represent the 14 C-Block PCS licenses acquired by the Company in the FCC auction in May 1996, as well as PCS licenses subsequently acquired from other carriers. PCS licenses also represent licenses acquired in 2005 by Royal Street in Auction No. 58.

The grant of the licenses by the FCC subjects the Company to certain FCC on-going ownership restrictions. Should the Company cease to continue to qualify under such ownership restrictions, the PCS licenses may be subject to revocation or require the payment of fines or forfeitures. All PCS licenses held by the Company will expire ten years from the initial date of grant of the PCS license by the FCC; however, the FCC rules provide for renewal. Such renewals are granted routinely without substantial cost.

On April 19, 2004, the Company 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, the Company 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, the Company executed a license purchase agreement by which the Company 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, the Company acquired a PCS license for a purchase price of \$8.5 million. The PCS license covers 20 MHz of spectrum in the basic trading area of Daytona Beach, Florida.

On May 11, 2005, the Company completed the sale of a 10 MHz portion of its 30 MHz PCS license in the San Francisco-Oakland-San Jose, California 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 the Company's 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 the Company 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, the Company 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, the Company 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 No. 58, had previously paid approximately \$294.0 million to the FCC for these PCS licenses.

**7. Accounts Payable and Accrued Expenses:**

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

	<b>2005</b>	<b>2004</b>
	<u>          </u>	<u>          </u>
Accounts payable	\$ 29,430	\$ 19,540
Book overdraft	9,920	10,486
Accrued accounts payable	69,611	40,524
Accrued liabilities	7,590	5,382
Vendor purchase commitment		5,091
Payroll and employee benefits	12,808	6,941
Accrued interest	17,578	4,393
Taxes, other than income	23,211	13,184
Income taxes	4,072	
	<u>          </u>	<u>          </u>
Accounts payable and accrued expenses	\$ 174,220	\$ 105,541
	<u>          </u>	<u>          </u>

**8. Long-Term Debt:**

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

	<u>2005</u>	<u>2004</u>
FCC notes	\$	\$ 33,409
Senior Notes		150,000
Microwave relocation obligations	2,690	4,061
Credit Agreements	900,000	
	<u>          </u>	<u>          </u>
Total	902,690	187,470
Less: original issue discount		(2,471)
Add: unamortized premium on debt	2,864	
	<u>          </u>	<u>          </u>
Total debt	905,554	184,999
Less: current maturities	(2,690)	(14,310)
	<u>          </u>	<u>          </u>
Total long-term debt	\$ 902,864	\$ 170,689

Maturities of the principal amount of long-term debt at face value are as follows (in thousands):

<u>For the Year Ending December 31,</u>	
2006	\$ 2,690
2007	
2008	
2009	
2010	
Thereafter	900,000
	<u>          </u>
Total	\$ 902,690

***FCC Debt***

The FCC notes matured in January 2007, had an annual interest rate of 6.5% and provided for quarterly payments of interest only until April 2003 and principal and interest thereafter until maturity. The FCC notes were secured by a first priority interest in the Company's original PCS licenses acquired by the Company in the FCC auction in May 1996.

Based on an estimated fair market borrowing rate of 14% at time of issuance, the FCC notes are recorded on the Company's consolidated financial statements at December 31, 2004, at the discounted value of \$30.9 million. The discount of \$2.5 million at December 31, 2004, was amortized using the effective interest method over the term of the debt. Amortization of the original issue discount resulted in additional interest expense of \$0.6 million and \$2.4 million for the years ended December 31, 2005 and 2004, respectively.

On March 2, 2005, in connection with the sale of 10 MHz of PCS spectrum in the San Francisco-Oakland-San Jose, California basic trading area, the Company repaid the outstanding principal balance of \$12.2 million in debt payable to the FCC. This debt was incurred in connection with the original

acquisition of the 30 MHz of PCS spectrum for the San Francisco-Oakland-San Jose basic trading area. The repayment resulted in a loss on extinguishment of debt of \$0.9 million.

On May 31, 2005, the Company repaid the remaining outstanding principal balance of \$15.7 million in debt payable to the FCC. This debt was incurred in connection with the acquisition of the Company's original PCS licenses acquired by the Company in the FCC auction in May 1996. The repayment resulted in a loss on extinguishment of debt of \$1.0 million.

As provided by FCC regulations, and further discussed in Note 10, the Company opted to make payments on the installment method to the various carriers to whom it owes a microwave relocation cost sharing liability. The Company remitted a 10% down payment upon presentation of the supported costs by the carrier and makes payments to the carriers for the same terms as the FCC notes which mature in ten years from inception.

***\$150 Million 10<sup>3</sup>/<sub>4</sub>% Senior Notes***

On September 29, 2003, MetroPCS, Inc. completed the sale of \$150.0 million of 10<sup>3</sup>/<sub>4</sub>% Senior Notes due 2011 (the "Senior Notes"). The Senior Notes are guaranteed on a senior unsecured basis by all of MetroPCS, Inc.'s current and future domestic restricted subsidiaries, other than Royal Street and certain immaterial subsidiaries. MetroPCS, Inc. has no independent assets or operations. The guarantees are full and unconditional and joint and several, and as of December 31, 2004 there are no wholly-owned subsidiaries of MetroPCS, Inc. other than the subsidiary guarantors. MetroPCS and Royal Street are not guarantors of the Senior Notes. The Senior Notes rank equally in right of payment with all of MetroPCS, Inc.'s future senior unsecured indebtedness, and rank senior to all of MetroPCS, Inc.'s future subordinated indebtedness. The Senior Notes are effectively subordinated to MetroPCS, Inc.'s existing and future secured indebtedness to the extent of the collateral securing such indebtedness. MetroPCS, Inc. may redeem some or all of the Senior Notes at any time on or after October 1, 2007, beginning at 105.375% of principal amount, plus accrued and unpaid interest, decreasing to 100% of principal amount, plus accrued and unpaid interest on October 1, 2009. In addition, prior to October 1, 2006, MetroPCS, Inc. may redeem up to 35% of the Senior Notes with the net proceeds of equity sales at 110.75% of principal amount, plus accrued and unpaid interest; provided that the redemption occurs within 90 days of the closing of such offering. The indenture also contains repurchase provisions related to asset sales and changes in control. Additionally, the indenture, among other things, restricts the ability of MetroPCS, Inc. and its restricted subsidiaries under certain conditions to:

incur additional indebtedness and, in the case of our restricted subsidiaries, issue preferred stock;

create liens on their assets;

pay dividends or make other restricted payments;

make investments;

enter into transactions with affiliates;

sell or make dispositions of assets;

place restrictions on the ability of subsidiaries to pay dividends or make other payments to MetroPCS, Inc.;

engage in certain business activities; and

merge or consolidate.

The net proceeds of the offering were approximately \$144.5 million after estimated underwriter fees and other debt issuance costs of \$5.5 million which have been recorded in other assets and are being amortized over the life of the debt. Of such costs, \$0.1 million is included in accounts payable and accrued expenses at December 31, 2003. The net proceeds will be used to further deploy the Company's network and related infrastructure, as well as for general corporate purposes. MetroPCS, Inc. is subject to certain covenants set forth in the indenture governing the Senior Notes. On August 20, 2004, the Company announced that it would delay the filing of its quarterly report on Form 10-Q for the quarter ended June 30, 2004 pending the completion of an independent investigation. Failure to file the quarterly report for the quarter ended June 30, 2004 in a timely manner constituted a failure to comply with the covenant relating to the Senior Notes (the "Reporting Covenant"), requiring the Company to file with the SEC, and furnish to the holders of the Senior Notes, certain reports required to be filed pursuant to the Securities Exchange Act of 1934. On September 9, 2004, the trustee under the indenture provided notice to MetroPCS, Inc. of its failure to comply with the Reporting Covenant. Had MetroPCS, Inc. not complied with the Reporting Covenant (or otherwise obtained a waiver related thereto) by November 8, 2004, this failure to comply would have constituted an event of default under the indenture and would have permitted the trustee (or the holders of at least 25% of the principal amount of the Senior Notes) to accelerate the Senior Notes. On November 3, 2004, MetroPCS, Inc. received and accepted consents from the holders of a majority of its Senior Notes to a limited waiver, for up to 180 days, of any default or event of default arising from a failure to file with the SEC, and furnish to the holders of the notes, reports required to be filed pursuant to the Securities Exchange Act of 1934. The Company believes that there was no uncured event of noncompliance at December 31, 2004.

On May 10, 2005, holders of all of the Senior Notes tendered their Senior Notes in response to MetroPCS, Inc.'s cash tender offer and consent solicitation. As a result, MetroPCS, Inc. executed a supplemental indenture governing the Senior Notes to eliminate substantially all of the restrictive covenants and event of default provisions in the Indenture, to amend other provisions of the Indenture, and to waive any and all defaults and events of default that may have existed under the Indenture. On May 31, 2005, MetroPCS, Inc. purchased all of its outstanding Senior Notes in the tender offer. MetroPCS, Inc. paid the holders of the notes \$178.9 million plus accrued interest of \$2.7 million in the tender offer, resulting in a loss on extinguishment of debt of \$34.0 million.

#### ***Bridge Credit Agreement***

In February 2005, Wireless entered into a secured bridge credit facility, dated as of February 22, 2005 (as amended, the "Bridge Credit Agreement"). The aggregate credit commitments available under the Bridge Credit Agreement totaled \$540.0 million. The lenders funded \$240.0 million and \$300.0 million under the Bridge Credit Agreement in February 2005 and March 2005, respectively.

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The Bridge Credit Agreement provided that all borrowings were senior secured obligations of Wireless and were guaranteed on a senior secured basis by MetroPCS, Inc. and its wholly-owned subsidiaries (other than Wireless). The obligations under the Bridge Credit Agreement were secured by security interests in substantially all of the assets of MetroPCS, Inc. and its wholly-owned subsidiaries, including capital stock, except as prohibited by law and certain permitted exceptions, as more fully described in the Security Agreement and the Pledge Agreement both, dated as of February 22, 2005, as amended.

In May 2005, Wireless repaid the aggregate outstanding principal balance under the Bridge Credit Agreement of \$540.0 million and accrued interest of \$8.7 million. As a result, Wireless recorded a loss on extinguishment of debt in the amount of \$10.4 million.

### *First and Second Lien Credit Agreements*

On May 31, 2005, MetroPCS, Inc. and Wireless, both wholly-owned subsidiaries of MetroPCS, entered into the Credit Agreements, which provided for total borrowings of up to \$900.0 million. MetroPCS, Inc. and its wholly-owned subsidiaries also entered into Guarantee and Collateral Agreements, dated as of May 31, 2005, in connection with the Credit Agreements, in which the lenders hold a security interest in substantially all property, including capital stock, now owned or at any time acquired by MetroPCS, Inc. and its wholly-owned subsidiaries, except for certain permitted exceptions or as prohibited by law. Royal Street did not enter into any Guarantee and Collateral Agreements in connection with the Credit Agreements, however, MetroPCS pledged the promissory note that Royal Street has given the Company in connection with amounts borrowed by Royal Street from Wireless. On May 31, 2005, Wireless borrowed \$500.0 million under the First Lien Credit Agreement and \$250.0 million under the Second Lien Credit Agreement.

On December 19, 2005, Wireless entered into amendments to the Credit Agreements and borrowed an additional \$50.0 million under the First Lien Credit Agreement and an additional \$100.0 million under the Second Lien Credit Agreement. Under the amendments to the Credit Agreements the total amount available under the First Lien Credit Agreement increased by \$330.0 million and the total amount available under the Second Lien Credit Agreement increased by \$220.0 million, for a total increase in the amounts available under the Credit Agreements of \$550.0 million. Wireless's ability to draw on this additional \$550.0 million is restricted until it complies with certain conditions which were not met at December 31, 2005.

The interest rates on the outstanding debt under the Credit Agreements are variable. The rates as of December 31, 2005 were 8.25% for \$500.0 million outstanding under the First Lien Credit Agreement and 10.75% for \$250.0 million outstanding under the Second Lien Credit Agreement. As of December 31, 2005, the interest rates on the additional funds borrowed by Wireless on December 19, 2005 were 8.875% for the \$50.0 million borrowed under the First Lien Credit Agreement and 11.375% for the \$100.0 million borrowed under the Second Lien Credit Agreement. As of December 31, 2005, there was a total of \$900.0 million outstanding under the Credit Agreements, which is reported as long-term debt on the accompanying consolidated balance sheets.



**9. Concentrations:**

The Company purchases a substantial portion of its wireless infrastructure equipment and handset equipment from only a few major suppliers. Further, the Company generally relies on one key vendor in each of the following areas: network infrastructure equipment, billing services, customer care, handset logistics and long distance services. Loss of any of these suppliers could adversely affect operations temporarily until a comparable substitute could be found.

Local and long distance telephone and other companies provide certain communication services to the Company. Disruption of these services could adversely affect operations in the short term until an alternative telecommunication provider was found.

Concentrations of credit risk with respect to trade accounts receivable are limited due to the diversity of the Company's indirect retailer base.

**10. Commitments and Contingencies:**

Until April 2005, the Company was required to share radio frequency spectrum with existing fixed microwave licensees operating on the same spectrum as the Company's. Until April 2005, to the extent that the Company's PCS operations interfered with those of existing microwave licensees, the Company was required to pay for the relocation of the existing microwave station paths to alternate spectrum locations or transmission technologies. The FCC adopted a transition plan to move those microwave users to different locations on the spectrum. The FCC also adopted a cost sharing plan, so that if the relocation of a microwave user benefits more than one PCS licensee, all benefiting PCS licensees are required to share the relocation costs. After the expiration of the FCC-mandated transition and cost sharing plans in April 2005, any remaining microwave user operating in the PCS spectrum must relocate if it interferes with a PCS licensee's operations, and it will be responsible for its own relocation costs.

The Company has entered into non-cancelable operating lease agreements to lease facilities, certain equipment and sites for towers and antennas required for the operation of its wireless networks. Future minimum rental payments required for all non-cancelable operating leases at December 31, 2005 are as follows (in thousands):

<b>For the Year Ending December 31,</b>	
2006	\$ 59,207
2007	60,205
2008	60,997
2009	61,533
2010	62,231
Thereafter	189,897
<b>Total</b>	<b>\$ 494,070</b>

Total rent expense for the years ended December 31, 2005, 2004 and 2003 was \$51.6 million, \$37.7 million and \$29.3 million, respectively.

In May 2001, the Company entered into a purchase commitment with Lucent Technologies, Inc. for the purchase of personal communication services systems totaling \$161.0 million, which required

\$28.0 million and \$46.1 million to be purchased for the years ended December 31, 2003 and 2002, respectively. At December 31, 2004, the Company had no outstanding purchase commitments under this agreement.

The Company entered into non-cancelable purchase agreements with a vendor for the acquisition of expansion carriers installed in base stations which are recorded in property and equipment upon shipment. Under these agreements, the Company agreed to pay for the base stations upon shipment, and the expansion carriers at the earlier of the date the carrier is turned on or twelve months from the shipment date of the base station for the first expansion carrier, and the earlier of the date the carrier is turned on or twenty-four months from the shipment date of the base station for the second expansion carrier. Outstanding obligations under these purchase agreements were \$5.1 million and \$22.1 million at December 31, 2004 and 2003, respectively. Of these amounts, \$5.1 million and \$13.6 million were included in accounts payable and accrued expenses at December 31, 2004 and 2003, respectively. This agreement was terminated on June 6, 2005 when Wireless entered into a new general purchase agreement with this vendor for the purchase of PCS CDMA system products ("CDMA Products") and services, including without limitation, wireless base stations, switches, power, cable and transmission equipment and services, with an initial term of three years. The agreement provides for both exclusive and non-exclusive pricing for CDMA Products and the agreement may be renewed at Wireless' option on an annual basis for three subsequent years after the conclusion of the initial three-year term. If Wireless fails to purchase exclusively CDMA Products from the vendor, it may have to pay certain liquidated damages based on the difference in prices between exclusive and non-exclusive prices for CDMA Products already purchased since the effective date of the agreement, which may be material to Wireless.

### *Litigation*

The Company is involved in various claims and legal actions arising in the ordinary course of business. The ultimate disposition of these matters is not expected to have a material adverse impact on the Company's financial position, results of operations or liquidity.

The Company is involved in various claims and legal actions in relation to claims of patent infringement. The ultimate disposition of these matters is not expected to have a material adverse impact on the Company's financial position, results of operations or liquidity.

### **11. Series D Cumulative Convertible Redeemable Participating Preferred Stock:**

In July 2000, MetroPCS, Inc. executed a Securities Purchase Agreement, which was subsequently amended (as amended, the "SPA"). Under the SPA, MetroPCS, Inc. issued shares of Series D Cumulative Convertible Redeemable Participating Preferred Stock, par value of \$0.0001 per share ("Series D Preferred Stock"). In January 2001, MetroPCS, Inc. finalized \$350.0 million in commitments to issue shares of Series D Preferred Stock. Of this commitment, net proceeds of \$88.2 million and \$160.0 million were received in 2001 and 2002, respectively. In 2003, MetroPCS, Inc. called the remaining commitments for, and issued, the shares of Series D Preferred Stock for proceeds of approximately \$65.5 million. Additionally, all principal and accrued interest totaling \$5.1 million on MetroPCS, Inc.'s 2002 Subordinated Convertible Notes were converted into Series D Preferred Stock. In July 2004, each share of MetroPCS, Inc. Series D Preferred Stock was converted into a share of

Series D Preferred Stock of MetroPCS (See Note 1). Dividends accrue at an annual rate of 6% of the liquidation value of \$100 per share on the Series D Preferred Stock. Dividends of \$21.0 million, \$21.0 million and \$18.5 million were accrued for the years ended December 31, 2005, 2004 and 2003, respectively, and are included in the Series D Preferred Stock balance.

Each share of Series D Preferred Stock will automatically convert into Common Stock upon (i) completion of a Qualified Public Offering (as defined in the SPA), (ii) MetroPCS' Common Stock trading (or in the case of a merger or consolidation of MetroPCS with another company, other than a sale or change of control of MetroPCS, the shares received in such merger or consolidation having traded immediately prior to such merger and consolidation) on a national securities exchange for a period of 30 consecutive trading dates above a price that implies a market valuation of the Series D Preferred Stock in excess of twice the initial purchase price of the Series D Preferred Stock, or (iii) the date specified by the holders of two-thirds of the outstanding Series D Preferred Stock. The Series D Preferred Stock and the accrued but unpaid dividends thereon are convertible into Common Stock at \$9.40 per share of Common Stock, which per share amount is subject to adjustment in accordance with the terms of MetroPCS' Second Amended and Restated Articles of Incorporation. If not previously converted, MetroPCS is required to redeem all outstanding shares of Series D Preferred Stock on July 17, 2015, at the liquidation value plus accrued but unpaid dividends.

The holders of Series D Preferred Stock, as a class with the holders of Common Stock, have the right to vote on all matters as if each share of Series D Preferred Stock had been converted into Common Stock, except for the election of directors. The holders of Series D Preferred Stock, as a class, can nominate one member of the Board of Directors of MetroPCS. Each share of Series D Preferred Stock is entitled to a liquidation preference upon a liquidation event (as defined in MetroPCS' Second Amended and Restated Articles of Incorporation) equal to the sum of:

the per share liquidation value, plus

the greater of:

the amount of all accrued and unpaid dividends and distributions on such share, and

the amount that would have been paid in respect of such share had it been converted into Common Stock immediately prior to the event that triggered payment of the liquidation preference, net of the liquidation value of the Series D Preferred Stock and the Series E Cumulative Convertible Redeemable Participating Preferred Stock, par value \$0.0001 per share, ("Series E Preferred Stock").

The SPA defines a number of events of noncompliance. Upon an occurrence of an event of noncompliance, the holders of not less than two-thirds of the then outstanding shares of Series D Preferred Stock can request MetroPCS to redeem the outstanding shares at an amount equal to the liquidation value plus accrued but unpaid dividends. The Company believes that there was no uncured or unwaived event of noncompliance at December 31, 2005 and 2004.

**12. Series E Cumulative Convertible Redeemable Participating Preferred Stock:**

MetroPCS entered into a stock purchase agreement, dated as of August 30, 2005, under which MetroPCS issued 500,000 shares of Series E Preferred Stock for \$50.0 million in cash. Total proceeds to MetroPCS were \$46.7 million, net of transaction costs of approximately \$3.3 million. The Series E Preferred Stock and the Series D Preferred Stock rank equally with respect to dividends, conversion rights and liquidation preferences. Dividends on the Series E Preferred Stock accrue at an annual rate of 6% of the liquidation value of \$100 per share. Dividends of \$1.0 million were accrued for the year ended December 31, 2005.

Each share of Series E Preferred Stock will be converted into Common Stock of MetroPCS upon (i) the completion of a Qualifying Public Offering, (as defined in the Second Amended and Restated Stockholders Agreement), (ii) the Common Stock trading (or, in the case of a merger or consolidation of MetroPCS with another company, other than as a sale or change of control of MetroPCS, the shares received in such merger or consolidation having traded immediately prior to such merger or consolidation) on a national securities exchange for a period of 30 consecutive trading dates above a price implying a market valuation of the Series D Preferred Stock over twice the Series D Preferred Stock initial purchase price, or (iii) the date specified by the holders of two-thirds of the Series E Preferred Stock. The Series E Preferred Stock is convertible into Common Stock at \$27.00 per share, which per share amount is subject to adjustment in accordance with the terms of the Second Amended and Restated Articles of Incorporation of MetroPCS. If not previously converted, MetroPCS is required to redeem all outstanding shares of Series E Preferred Stock on July 17, 2015, at the liquidation preference of \$100 per share plus accrued but unpaid dividends. In 2005 MetroPCS, in connection with the sale of the Series E Preferred Stock, increased the total authorized Preferred Stock to 25,000,000 shares, par value \$0.0001 per share.

On October 25, 2005, pursuant to the terms of the stock purchase agreement, the investors in the Series E Preferred Stock also conducted a tender offer in which they purchased outstanding Series D Preferred Stock and Common Stock. The Company believes that there was no uncured or unwaived event of noncompliance at December 31, 2005.

**13. Capitalization:**

*Warrants*

From inception through February 1998, MetroPCS, Inc. issued various warrants to purchase Common Stock in conjunction with sales of stock and in exchange for consulting services, which were converted into warrants in MetroPCS in July 2004. As of December 31, 2005, the total numbers of warrants outstanding was 175,650 at an exercise price of \$0.0003 per warrant.

During the year ended December 31, 2005, 760,735 warrants were exercised for 760,735 shares of Common Stock for total proceeds of approximately \$0.6 million.

*Redemption*

If, at any time, ownership of shares of Common Stock, Series D Preferred Stock or Series E Preferred Stock by a holder would cause the Company to violate any FCC ownership requirements or restrictions, MetroPCS may, at the option of the Board of Directors, redeem a number of shares of

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Common Stock, Series D Preferred Stock or Series E Preferred Stock sufficient to eliminate such violation.

### ***Conversion Rights***

On April 15, 2004, the Board of Directors approved the conversion of shares of Class B non-voting common stock into Class C Common Stock. Each outstanding share of Class B non-voting common stock was converted into a share of Class C Common Stock on May 18, 2004. On July 13, 2004, as part of the merger of a wholly-owned subsidiary of MetroPCS into MetroPCS, Inc., each share of the Class A Common Stock, Class C Common Stock and Series D Preferred Stock of MetroPCS, Inc. was converted on a share for share basis into Class A Common Stock, Class C Common Stock or Series D Preferred Stock, as applicable, of MetroPCS. On July 23, 2004, the Class C Common Stock was renamed Common Stock. Effective December 31, 2005, each share of Class A Common Stock was automatically converted into one share of Common Stock upon the occurrence of the Class A Termination Event.

### ***Stock Split***

On July 23, 2004, MetroPCS effected a 1-for-2 reverse stock split of the Common Stock of MetroPCS. All share, per share and conversion amounts relating to the Common Stock, stock options, and stock purchase warrants included in the accompanying consolidated financial statements have been retroactively adjusted to reflect the reverse stock split.

### ***Class A Common Stock Termination Event***

MetroPCS previously qualified as a very small business designated entity ("DE"). MetroPCS met the DE control requirements of the FCC by issuing Class A Common Stock entitling its holders to 50.1% of the stockholders' votes and the right to designate directors holding a majority of the voting power of MetroPCS' Board of Directors. As a result of MetroPCS' repayment of its FCC debt in May 2005, it was no longer required to maintain its eligibility as a DE. On August 5, 2005 MetroPCS' wholly-owned licensee subsidiaries each filed administrative updates with the FCC notifying the FCC that MetroPCS was no longer subject to the DE control requirements. The administrative updates were informational in nature since no transfer of *de jure* or *de facto* control took place at that time.

As part of the stock purchase agreement for the Series E Preferred Stock, MetroPCS filed its Second Amended and Restated Certificate of Incorporation ("Revised Articles") and MetroPCS and certain of its stockholders entered into the Second Amended and Restated Stockholders Agreement, dated as of August 30, 2005 ("Stockholders Agreement"). The Revised Articles and Stockholders Agreement required, among other things, that MetroPCS cause a change in control by the later of December 31, 2005 or the date on or after which the FCC's grant of MetroPCS' application to transfer control became final ("Class A Termination Event"). The Class A Termination Event triggers, among other things, the conversion of all of the Class A Common Stock into MetroPCS Common Stock and the extinguishment of the special voting and board appointment rights of the Class A Common Stock. In addition, certain supermajority voting rights held by the Series D Preferred Stock and Series E Preferred Stock are also extinguished. The stock purchase agreement for the Series E Preferred Stock requires that under the new structure MetroPCS have a nine member Board of Directors. In addition,

after the Class A Termination Event, votes on significant matters requiring a stockholder vote are generally by vote of the holders of a majority of all of the shares of capital stock of MetroPCS, with the holders of the Series D Preferred Stock and Series E Preferred Stock voting with holders of the Common Stock on an "as converted" basis. On November 1, 2005, MetroPCS' wholly-owned licensee subsidiaries filed transfer of control applications with the FCC to seek the FCC's consent to the Class A Termination Event. The FCC applications were approved and the grants were listed in an FCC Public Notice on November 10, 2005. The grants were finalized on December 19, 2005 and the Class A Termination Event occurred on December 31, 2005. The net effect of these changes is that the holders of Class A Common Stock have relinquished affirmative control of MetroPCS to the stockholders as a whole. There was no significant financial accounting impact.

#### *Common Stock Issued to Directors*

Non-employee members of MetroPCS' Board of Directors receive compensation for serving on the Board of Directors, as defined in MetroPCS' Non-Employee Director Remuneration Plan. The annual retainer provided under the Non-Employee Director Remuneration Plan may be paid in cash, Common Stock, or a combination of cash and Common Stock. During 2005, non-employee members of the Board of Directors were issued 26,479 shares of Common Stock as payment of their annual retainer.

#### **14. Stock Option Plan:**

MetroPCS has two stock option plans (the "Option Plans") under which it grants options to purchase Common Stock of MetroPCS; the Second Amended and Restated 1995 Stock Option Plan, as amended ("1995 Plan"), and the 2004 Equity Incentive Compensation Plan, as amended ("2004 Plan"). The 1995 Plan terminated in November 2005 and no further awards can be made under the 1995 Plan, but all options granted before November 2005 will remain valid in accordance with their terms. As of December 31, 2005 and 2004, the maximum number of shares reserved for the 2004 Plan was 4,700,000 shares. The 1995 Plan is administered by MetroPCS' Board of Directors and the 2004 Plan is administered by the Compensation Committee of the Board of Directors of MetroPCS. Vesting periods and terms for stock option grants are determined by the plan administrator, which is MetroPCS' Board of Directors for the 1995 Plan and the Compensation Committee of the Board of Directors of MetroPCS for the 2004 Plan. No option granted under the 1995 Plan shall have a term in excess of fifteen years and no option granted under the 2004 Plan shall have a term in excess of ten years. Options granted during the years ended December 31, 2005, 2004 and 2003 have a vesting period of one to four years.

Options granted under the 1995 Plan are exercisable upon grant. Shares received upon exercising options prior to vesting are restricted from sale based on a vesting schedule. In the event an option holder's service with the Company is terminated, MetroPCS may repurchase unvested shares issued under the 1995 Plan at the option exercise price. Options granted under the 2004 Plan are only exercisable upon vesting.

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

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utilized the following weighted-average assumptions in estimating the fair value of the options grants in the years ended December 31, 2005, 2004 and 2003:

	2005	2004	2003
Expected dividends	0.00%	0.00%	0.00%
Expected volatility	50.00%	55.00%	68.01%
Risk-free interest rate	4.24%	3.22%	2.82%
Expected lives in years	5.00	5.00	5.00
Weighted-average fair value of options:			
Granted at below fair value	\$	\$ 8.64	\$ 5.52
Granted at fair value	\$ 10.32	\$ 7.93	\$
Weighted-average exercise price of options:			
Granted at below fair value	\$	\$ 13.37	\$ 4.70
Granted at fair value	\$ 21.39	\$ 15.74	\$

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.

A summary of the status of the Company's Option Plans as of December 31, 2005, 2004 and 2003, and changes during the periods then ended, is presented in the table below:

	2005		2004		2003	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding, beginning of year	10,816,285	\$ 2.76	10,352,394	\$ 1.82	9,555,770	\$ 1.55
Granted	1,946,178	\$ 21.39	890,506	\$ 14.28	1,012,425	\$ 4.70
Exercised	(7,556,557)	\$ 1.13	(211,976)	\$ 1.96	(70,946)	\$ 0.60
Forfeited	(371,836)	\$ 12.11	(214,639)	\$ 6.07	(144,855)	\$ 4.70
Outstanding, end of year	4,834,070	\$ 12.54	10,816,285	\$ 2.76	10,352,394	\$ 1.82
Options exercisable at year-end	3,661,859		10,816,285		10,352,394	
Options vested at year-end	2,232,110		8,992,324		8,296,724	

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The following table summarizes information about stock options outstanding at December 31, 2005:

Exercise Price	Options Outstanding			Options Vested	
	Number of Shares	Weighted Average Contractual Life	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
\$ 0.23 - \$ 1.00	320,667	6.43	\$ 0.34	320,667	\$ 0.34
\$ 4.70 - \$ 4.70	1,557,089	5.73	\$ 4.70	1,499,297	\$ 4.70
\$ 5.40 - \$18.94	1,058,536	7.91	\$ 11.85	346,980	\$ 11.36
\$20.00 - \$21.46	1,897,778	9.67	\$ 21.42	65,166	\$ 21.41
	<b>4,834,070</b>			<b>2,232,110</b>	

In 2004, Congress passed the American Job Creation Act of 2004 which changed certain rules with respect to deferred compensation, including options to purchase MetroPCS' Common Stock which were granted below the fair market value of the Common Stock as of the grant date. MetroPCS had previously granted certain options to purchase its Common Stock under the 1995 Plan at exercise prices which MetroPCS believes were below the fair market value of its Common Stock at the time of grant. In December 2005, MetroPCS offered to amend the stock option grants of all affected employees by increasing the exercise price of such affected stock option grants to the fair value of MetroPCS' Common Stock as of the date of grant and granting additional stock options which vested 50% on January 1, 2006 and 50% on January 1, 2007 at the fair market value of MetroPCS' Common Stock as of the grant date provided that the employee remained employed by the Company on those dates. The total number of affected stock options was 872,380 and MetroPCS granted 135,758 additional stock options.

During 2003, 70,946 options granted under the Option Plans were exercised for 65,000 shares of Class B non-voting common stock and 5,946 shares of Class C Common Stock for total proceeds of approximately \$43,000. During 2004, 211,976 options granted under the Option Plans were exercised for 211,976 shares of Common Stock for total proceeds of approximately \$0.4 million. During 2005, 7,556,557 options granted under the Option Plans were exercised for 7,556,557 shares of Common Stock for total proceeds of approximately \$8.5 million.

As of December 31, 2005, 2004 and 2003, options outstanding under the Option Plans have a weighted average remaining contractual life of 7.80, 7.23 and 8.07 years, respectively.

Deferred compensation, which is included within stockholders' equity on the consolidated balance sheets, represents the difference between the estimated fair value of the stock and the option exercise price at the date of grant. Deferred compensation is amortized over the vesting period and is recorded as deferred compensation expense within selling, general and administrative expenses. During the year ended December 31, 2005, the Company recorded reductions in deferred compensation in the amount of \$2.9 million as a result of forfeitures and the amendment of certain stock option grants due to the American Job Creation Act of 2004, as discussed above. During the year ended December 31, 2004, the Company recorded additional deferred compensation of \$0.9 million. The Company recorded a reduction in deferred compensation of \$0.1 million in 2003. The Company recognized deferred



compensation expense of \$0.3 million, \$1.7 million and \$1.4 million for the years ended December 31, 2005, 2004 and 2003, respectively. In addition, MetroPCS has additional stock options outstanding that are required to be marked-to-market under variable accounting and as a result, the Company recognized additional deferred compensation expense of \$2.3 million, \$5.1 million and \$4.1 million for the years ended December 31, 2005, 2004 and 2003, respectively, to reflect an increase in the estimated value of MetroPCS' Common Stock. During the year ended December 31, 2004, the Company recognized additional deferred compensation expense of \$3.6 million related to the extension of the contractual life of certain outstanding options.

**15. Employee Benefit Plan:**

The Company sponsors a savings plan under Section 401(k) of the Internal Revenue Code for the majority of its employees. The plan allows employees to contribute a portion of their pretax income in accordance with specified guidelines. The Company does not match employee contributions but may make discretionary or profit-sharing contributions. The Company has made no contributions to the savings plan through December 31, 2005.

**16. Income Taxes:**

The provision for taxes on income consisted of the following (in thousands):

	<u>2005</u>	<u>2004</u>	<u>2003</u>
<b>Current:</b>			
Federal	\$ (233)	\$ 197	\$ (4,721)
State	2,603	2,502	2,184
	<u>2,370</u>	<u>2,699</u>	<u>(2,537)</u>
<b>Deferred:</b>			
Federal	114,733	39,056	16,230
State	10,322	5,245	2,486
	<u>125,055</u>	<u>44,301</u>	<u>18,716</u>
Provision for income taxes	<u>\$ 127,425</u>	<u>\$ 47,000</u>	<u>\$ 16,179</u>

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Deferred taxes are provided for those items reported in different periods for income tax and financial reporting purposes. The Company's net deferred tax liability consisted of the following deferred tax assets and liabilities (in thousands):

	<u>2005</u>	<u>2004</u>
<b>Deferred tax assets:</b>		
Start-up costs capitalized for tax purposes	\$ 866	\$ 2,772
Net operating loss carry forward	85,152	50,933
Net basis difference in PCS licenses	1,428	6,440
Revenue deferred for book purposes	5,007	3,704
Interconnect accrual	256	445
Allowance for uncollectible accounts	1,272	1,060
Deferred rent expense	5,747	4,063
Deferred compensation	2,818	6,397
Accrued property tax	69	324
Asset retirement obligation	347	215
Accrued board of directors fees	35	27
Inventory capitalization	81	38
Accrued vacation	603	556
Inventory reserve	38	
Partnership interest	392	
Other	79	67
	<u>104,190</u>	<u>77,041</u>
<b>Deferred tax liabilities:</b>		
Depreciation	(157,083)	(141,132)
Deferred cost of handset sales	(4,867)	(3,407)
Amortization of original issue discount		(927)
Prepaid maintenance contracts and other	(297)	(152)
Prepaid insurance	(374)	(685)
Prepaid collateral	(276)	(97)
Gain deferral related to like kind exchange	(83,699)	
Other comprehensive income	(1,331)	
Other		(26)
	<u>(247,927)</u>	<u>(146,426)</u>
	<u>(143,737)</u>	<u>(69,385)</u>
Valuation allowance	(194)	(142)
	<u>\$ (143,931)</u>	<u>\$ (69,527)</u>

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Deferred tax assets and liabilities at December 31, 2005 and 2004 are as follows (in thousands):

	2005	2004
Current deferred tax asset	\$ 2,122	\$ 3,574
Non-current deferred tax liability	(146,053)	(73,101)
Net deferred tax liability	\$ (143,931)	\$ (69,527)

During 2003, the Company generated approximately \$89.5 million of net operating loss for federal income tax purposes, of which \$14.1 million was carried back to 2002 and the remaining amount of \$75.4 million will be available for carryforward to offset future income. During 2004, the Company generated approximately \$49.3 million of net operating loss for federal income tax purposes which will also be available for carryforward to offset future income. At December 31, 2004 the Company has approximately \$124.7 million and \$160.8 million of net operating loss carryforwards for federal and state income tax purposes, respectively. The federal net operating loss will begin expiring in 2023. The state net operating losses will begin to expire in 2013. The Company has been able to take advantage of accelerated depreciation available under federal tax law, which has created a significant deferred tax liability. The reversal of the timing differences which gave rise to the deferred tax liability, future taxable income and future tax planning strategies will allow the Company to benefit from the deferred tax assets, and as such, most of the valuation allowance was released in 2002. The Company has a valuation allowance of \$0.1 million at December 31, 2004 relating primarily to state net operating losses.

During 2005, the Company generated approximately \$103.2 million of net operating loss for federal income tax purposes which will also be available for carryforward to offset future income. At December 31, 2005 the Company has approximately \$228.7 million and \$102.5 million of net operating loss carryforwards for federal and state income tax purposes, respectively. The federal net operating loss will begin expiring in 2023. The state net operating losses will begin to expire in 2013. The Company has been able to take advantage of accelerated depreciation and like-kind exchange gain deferral available under federal tax law, which has created a significant deferred tax liability. The reversal of the timing differences which gave rise to the deferred tax liability, future taxable income and future tax planning strategies will allow the Company to benefit from the deferred tax assets. The Company has a valuation allowance of \$0.2 million at December 31, 2005 relating primarily to state net operating losses.

The Company establishes income tax reserves when, despite its belief that its tax returns are fully supportable, it believes that certain positions may be challenged and ultimately modified. The Company established tax reserves of \$21.2 million and \$18.9 million as of December 31, 2005 and 2004, respectively. The tax reserves are included in other long-term liabilities at December 31, 2004. At December 31, 2005 the tax reserves in the amount of \$17.1 million and \$4.1 million are included in other long-term liabilities and accounts payable and accrued expenses, respectively.

A reconciliation of income taxes computed at the United States federal statutory income tax rate (35%) to the provision for income taxes reflected in the consolidated statements of income and

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comprehensive income for the years ended December 31, 2005, 2004 and 2003 is as follows (in thousands):

	<u>2005</u>	<u>2004</u>	<u>2003</u>
U.S. federal income tax provision at statutory rate	\$ 114,136	\$ 39,117	\$ 11,080
Increase (decrease) in income taxes resulting from:			
State income taxes, net of federal income tax impact	10,865	5,187	2,407
Change in valuation allowance	52	58	50
Provision for tax uncertainties	2,274	2,561	2,410
Permanent items	98	15	125
Other	62	62	107
	<u>          </u>	<u>          </u>	<u>          </u>
Provision for income taxes	\$ 127,425	\$ 47,000	\$ 16,179
	<u>          </u>	<u>          </u>	<u>          </u>

***Internal Revenue Service Audit***

The Internal Revenue Service (the "IRS") commenced an audit of MetroPCS' 2002 and 2003 federal income tax returns in March 2005. In October 2005, the IRS issued a 30-day letter which primarily related to depreciation expense claimed on the returns under audit. The Company filed an appeal of the auditor's assessments in November 2005. The IRS appeals officer made the Company an offer to settle all issues in July 2006. The expected net result of the settlement offer should create an increase to 2002 taxable income of \$3.9 million and an increase to the 2003 net operating loss of \$0.5 million. The increase to 2002 taxable income would be offset by net operating loss carryback from 2003. The Company owes additional interest on the 2002 deferred taxes of approximately \$0.1 million, but no additional tax or penalty. In addition, the IRS Joint Committee concluded its review of the audit and issued a closing letter dated September 5, 2006.

***Texas Margin Tax***

On May 18, 2006, the Texas Governor signed into law a Texas margin tax ("H.B. No. 3") which restructures the state business tax by replacing the taxable capital and earned surplus components of the current franchise tax with a new "taxable margin" component. Because the tax base on the Texas margin tax is derived from an income-based measure, the Company believes the margin tax is an income tax and, therefore, the provisions of SFAS No. 109 regarding the recognition of deferred taxes apply to the new margin tax. In accordance with SFAS No. 109, the effect on deferred tax assets of a change in tax law should be included in tax expense attributable to continuing operations in the period that includes the enactment date. Although the effective date of H.B. No. 3 is January 1, 2008, certain effects of the change should be reflected in the financial statements of the first interim or annual reporting period that includes May 18, 2006. The Company has not completed its evaluation of the effect of H.B. No. 3.

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**17. Net Income (Loss) Per Common Share:**

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

	<u>2005</u>	<u>2004</u>	<u>2003</u>
<b>Basic EPS Two Class Method:</b>			
Net income	\$ 198,677	\$ 64,890	\$ 15,358
Accrued dividends and accretion:			
Series D Preferred Stock	(21,479)	(21,479)	(18,966)
Series E Preferred Stock	(1,133)		
Net income (loss) applicable to common stock	\$ 176,065	\$ 43,411	\$ (3,608)
Amount allocable to common shareholders	54.4%	53.1%	100.00%
Rights to undistributed earnings (losses)	\$ 95,722	\$ 23,070	\$ (3,608)
Weighted average shares outstanding basic	45,117,465	42,240,684	36,443,962
Net income (loss) per common share basic	\$ 2.12	\$ 0.55	\$ (0.10)
<b>Diluted EPS:</b>			
Rights to undistributed earnings (losses)	\$ 95,722	\$ 23,070	\$ (3,608)
Weighted average shares outstanding basic	45,117,465	42,240,684	36,443,962
Effect of dilutive securities:			
Warrants	896,459	2,214,005	
Stock options	5,189,606	5,756,540	
Weighted average shares outstanding diluted	51,203,530	50,211,229	36,443,962
Net income (loss) per common share diluted	\$ 1.87	\$ 0.46	\$ (0.10)

At December 31, 2005, 2004 and 2003, 43.1 million, 40.9 million and 34.4 million, respectively, of convertible shares of Series D Preferred Stock were excluded from the calculation of diluted net income (loss) per common share since the effect was anti-dilutive.

At December 31, 2005, 0.6 million of convertible shares of Series E Preferred Stock were excluded from the calculation of diluted net income per common share since the effect was anti-dilutive.

At December 31, 2003, 7.7 million of warrants to purchase common stock were excluded from the calculation of diluted net loss per common share since the effect was anti-dilutive.

At December 31, 2003, 5.0 million of options to purchase common stock were excluded from the calculation of diluted net loss per common share since the effect was anti-dilutive.

Pro forma net income per common share, presented below, gives effect to the conversion of all outstanding shares of Series D Preferred Stock and Series E Preferred Stock, as well as accrued, but unpaid dividends, in connection with the proposed initial public offering. As a result of the conversion



of the Series D Preferred Stock and the Series E Preferred Stock, pro forma net income per common share is not calculated using the two-class method, as presented above.

	2005
Net income	\$ 198,677
Basic net income per common share Pro forma	\$ 2.24
Diluted net income per common share Pro forma	\$ 2.09
Shares used in computing pro forma basic net income per common share	88,866,582
Shares used in computing pro forma diluted net income per common share	94,952,646

#### 18. Segment Information:

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. The Company's chief operating decision maker is the Chairman of the Board and Chief Executive Officer.

At December 31, 2005, the Company 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 and other value-added services.

The Company aggregates its 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,

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class of 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 the Company launches service in that operating segment. Expenses associated with the Company's 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.

Year Ended December 31, 2005	Core Markets	Expansion Markets	Other	Total
Service revenues	\$ 868,681	\$ 3,419	\$	\$ 872,100
Equipment revenues	163,738	2,590		166,328
Total revenues	1,032,419	6,009		1,038,428
Cost of service	271,437	11,775		283,212
Cost of equipment	293,702	7,169		300,871
Selling, general and administrative expenses(1)	153,321	9,155		162,476
Adjusted EBITDA (deficit)(2)	316,555	(22,090)		
Depreciation and amortization	84,436	2,030	1,429	87,895
Non-cash compensation expense	2,596			2,596
Income (loss) from operations	219,777	(24,370)	226,770	422,177
Interest expense			58,033	58,033
Accretion of put option in majority-owned subsidiary			252	252
Interest income			(8,658)	(8,658)
Loss on extinguishment of debt			46,448	46,448
Income (loss) before provision for income taxes	219,777	(24,370)	130,695	326,102
Capital expenditures	171,783	90,871	3,845	266,499
Total assets	701,675	378,671	1,078,635	2,158,981

(1) Selling, general and administrative expenses include non-cash compensation disclosed separately.

(2) 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 each segments' ability to meet future debt service, capital expenditures and working capital requirements and to fund future growth.

For the years ended December 31, 2004 and 2003, the consolidated financial statements represent the Core Markets reportable segment, as the Expansion Markets reportable segment had no operations until 2005.



**19. Guarantor Subsidiaries:**

In connection with Wireless' sale of \$1.0 billion of 9<sup>1</sup>/<sub>4</sub>% Senior Notes due 2014 (the "Notes") and the entry into a new senior secured credit facility, pursuant to which Wireless may borrow up to \$1.7 billion (the "Senior Secured Credit Facility"), MetroPCS and all of MetroPCS' subsidiaries, other than Wireless and Royal Street (the "guarantor subsidiaries") provided guarantees on the 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 restrict the ability of the guarantor subsidiaries to transfer funds to Wireless. Royal Street and its subsidiaries (the "non-guarantor subsidiaries") are not guarantors of the Notes or the Senior Secured Credit Facility.

The following information presents condensed consolidating balance sheets as of December 31, 2005 and 2004, condensed consolidating statements of income for the years ended December 31, 2005, 2004 and 2003, and condensed consolidating statements of cash flows for the years ended December 31, 2005, 2004 and 2003 of the parent company, the issuer, the guarantor subsidiaries and the non-guarantor subsidiaries. Investments include investments in subsidiaries held by the parent company and the issuer and have been presented using the equity method of accounting.

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Consolidated Balance Sheet  
As of December 31, 2005

	Parent	Issuer	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
(in thousands)						
<b>CURRENT ASSETS:</b>						
Cash and cash equivalents	\$ 10,624	\$ 95,772	\$ 219	\$ 6,094	\$	\$ 112,709
Short-term investments	24,223	366,199				390,422
Inventories, net		34,045	5,386			39,431
Accounts receivable, net		16,852			(824)	16,028
Prepaid expenses			21,412	18		21,430
Deferred charges		13,270				13,270
Deferred tax asset		2,122				2,122
Other current assets	208	2,364	14,118			16,690
<b>Total current assets</b>	<b>35,055</b>	<b>530,624</b>	<b>41,135</b>	<b>6,112</b>	<b>(824)</b>	<b>612,102</b>
Property and equipment, net			829,457	2,033		831,490
Restricted cash and investments		2,917	3			2,920
Long-term investments		16,385			(11,333)	5,052
Investment in subsidiaries	243,930	709,704			(953,634)	
PCS licenses			387,700	293,599		681,299
Microwave relocation costs			9,187			9,187
Long-term receivable from subsidiaries		320,630			(320,630)	
Other assets		15,360	1,571			16,931
<b>Total assets</b>	<b>\$ 278,985</b>	<b>\$ 1,595,620</b>	<b>\$ 1,269,053</b>	<b>\$ 301,744</b>	<b>\$ (1,286,421)</b>	<b>\$ 2,158,981</b>
<b>CURRENT LIABILITIES:</b>						
Accounts payable and accrued expenses	\$ 321	\$ 58,104	\$ 125,362	\$ 2,590	\$ (12,157)	\$ 174,220
Current maturities of long-term debt			2,690			2,690
Deferred revenue		9,158	47,402			56,560
Advances to subsidiaries	(559,186)	218,278	340,908			
Other current liabilities			2,147			2,147
<b>Total current liabilities</b>	<b>(558,865)</b>	<b>285,540</b>	<b>518,509</b>	<b>2,590</b>	<b>(12,157)</b>	<b>235,617</b>
Long-term debt, net		902,864				902,864
Long-term note to parent				320,630	(320,630)	
Deferred tax liabilities		146,053				146,053
Deferred rents			14,739			14,739
Redeemable minority interest					1,259	1,259
Other long-term liabilities		17,233	3,625			20,858
<b>Total liabilities</b>	<b>(558,865)</b>	<b>1,351,690</b>	<b>536,873</b>	<b>323,220</b>	<b>(331,528)</b>	<b>1,321,390</b>
<b>COMMITMENTS AND CONTINGENCIES</b>						
(See Note 10)						
SERIES D PREFERRED STOCK	421,889					421,889
SERIES E PREFERRED STOCK	47,796					47,796
<b>STOCKHOLDERS' EQUITY:</b>						
Preferred stock						
Common stock	5					5
Additional paid-in capital	149,594			20,000	(20,000)	149,594
Subscriptions receivable				(13,333)	13,333	
Deferred compensation	(178)	(178)	(178)		356	(178)
Retained earnings (deficit)	216,961	242,357	732,358	(28,143)	(946,831)	216,702
Accumulated other comprehensive income	1,783	1,751			(1,751)	1,783
<b>Total stockholders' equity</b>	<b>368,165</b>	<b>243,930</b>	<b>732,180</b>	<b>(21,476)</b>	<b>(954,893)</b>	<b>367,906</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 278,985</b>	<b>\$ 1,595,620</b>	<b>\$ 1,269,053</b>	<b>\$ 301,744</b>	<b>\$ (1,286,421)</b>	<b>\$ 2,158,981</b>

Consolidated Balance Sheet  
As of December 31, 2005

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Consolidated Balance Sheet  
As of December 31, 2004

	Parent	Issuer	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
(in thousands)						
<b>CURRENT ASSETS:</b>						
Cash and cash equivalents	\$ 1	\$ 22,349	\$ 127	\$	\$	\$ 22,477
Short-term investments		36,964				36,964
Inventories, net		29,439	4,278			33,717
Accounts receivable, net		9,101				9,101
Prepaid expenses		2,610	4,413			7,023
Deferred charges		9,225				9,225
Deferred tax asset		3,574				3,574
Other current assets		8,031	1,446	25,000		34,477
Total current assets	1	121,293	10,264	25,000		156,558
Property and equipment, net		3,404	632,964			636,368
Restricted cash and investments		2,293				2,293
Investment in subsidiaries	40,069	313,821			(353,890)	
PCS licenses			154,144			154,144
Microwave relocation costs			9,566			9,566
Long-term receivable from subsidiaries		18,408			(18,408)	
Other assets		5,157	1,310			6,467
Total assets	\$ 40,070	\$ 464,376	\$ 808,248	\$ 25,000	\$ (372,298)	\$ 965,396
<b>CURRENT LIABILITIES:</b>						
Accounts payable and accrued expenses	\$	\$ 16,707	\$ 88,691	\$ 143	\$	\$ 105,541
Current maturities of long-term debt			14,310			14,310
Deferred revenue		6,371	34,053			40,424
Advances to subsidiaries	(484,861)	155,579	329,282			
Other current liabilities		2,559	186			2,745
Total current liabilities	(484,861)	181,216	466,522	143		163,020
Long-term debt, net		150,000	20,689			170,689
Long-term note to parent				18,408	(18,408)	
Deferred tax liabilities	(921)	74,022				73,101
Deferred rents		71	10,260			10,331
Redeemable minority interest					1,008	1,008
Other long-term liabilities		18,998	2,405			21,403
Total liabilities	(485,782)	424,307	499,876	18,551	(17,400)	439,552
<b>COMMITMENTS AND CONTINGENCIES (See Note 10)</b>						
SERIES D PREFERRED STOCK	400,410					400,410
<b>STOCKHOLDERS' EQUITY:</b>						
Preferred stock						
Common stock	4					4
Additional paid-in capital	88,493			6,667	(6,667)	88,493
Subscriptions receivable	(98)	(98)			98	(98)
Deferred compensation	(3,331)	(3,331)			3,331	(3,331)
Retained earnings (deficit)	40,645	43,769	308,372	(218)	(351,931)	40,637
Accumulated other comprehensive income	(271)	(271)			271	(271)
Total stockholders' equity	125,442	40,069	308,372	6,449	(354,898)	125,434
Total liabilities and stockholders' equity	\$ 40,070	\$ 464,376	\$ 808,248	\$ 25,000	\$ (372,298)	\$ 965,396

**Consolidated Balance Sheet**  
**As of December 31, 2004**

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**Consolidated Statement of Income**  
**Year Ended December 31, 2005**

	Parent	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
(in thousands)						
<b>REVENUES:</b>						
Service revenues	\$	\$	\$ 872,100	\$	\$	\$ 872,100
Equipment revenues		13,960	152,368			166,328
Total revenues		13,960	1,024,468			1,038,428
<b>OPERATING EXPENSES:</b>						
Cost of service (excluding depreciation and amortization expense shown separately below)			283,175	37		283,212
Cost of equipment		12,837	288,034			300,871
Selling, general and administrative expenses (excluding depreciation and amortization expense shown separately below)	274	2,893	158,287	1,022		162,476
Depreciation and amortization		120	87,775			87,895
Gain on disposal of assets			(218,203)			(218,203)
Total operating expenses	274	15,850	599,068	1,059		616,251
Income from operations	(274)	(1,890)	425,400	(1,059)		422,177
<b>OTHER EXPENSE (INCOME):</b>						
Interest expense		58,482	(444)	26,997	(27,002)	58,033
Earnings from consolidated subsidiaries	(198,587)	(396,060)			594,647	
Accretion of put option in majority-owned subsidiary					252	252
Interest income	(615)	(34,913)	(1)	(131)	27,002	(8,658)
Loss on extinguishment of debt		44,589	1,859			46,448
Total other expense	(199,202)	(327,902)	1,414	26,866	594,899	96,075
Income before provision for income taxes	198,928	326,012	423,986	(27,925)	(594,899)	326,102
Provision for income taxes		(127,425)				(127,425)
Net income (loss)	\$ 198,928	\$ 198,587	\$ 423,986	\$ (27,925)	\$ (594,899)	\$ 198,677

**Consolidated Statement of Income**  
**Year Ended December 31, 2004**

	Parent	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
(in thousands)						
<b>REVENUES:</b>						
Service revenues	\$	\$	\$ 616,401	\$	\$	\$ 616,401
Equipment revenues		11,720	120,129			131,849
Total revenues		11,720	736,530			748,250
<b>OPERATING EXPENSES:</b>						
Cost of service (excluding depreciation and amortization expense shown separately below)			200,806			200,806
Cost of equipment		10,944	211,822			222,766
Selling, general and administrative expenses (excluding depreciation and amortization expense shown separately below)	2,631	38,956	89,761	162		131,510
Depreciation and amortization		915	61,286			62,201
Loss on disposal of assets		24	3,185			3,209
Total operating expenses	2,631	50,839	566,860	162		620,492
Income from operations	(2,631)	(39,119)	169,670	(162)		127,758
<b>OTHER EXPENSE (INCOME):</b>						
Interest expense		16,723	2,307	56	(56)	19,030
Earnings from consolidated subsidiaries	(56,004)	(167,844)			223,848	
Accretion of put option in majority-owned subsidiary					8	8
Interest income		(2,528)			56	(2,472)
Gain on extinguishment of debt			(698)			(698)
Total other expense	(56,004)	(153,649)	1,609	56	223,856	15,868
Income before provision for income taxes	53,373	114,530	168,061	(218)	(223,856)	111,890
Provision for income taxes	921	(47,921)				(47,000)
Net income (loss)	\$ 54,294	\$ 66,609	\$ 168,061	\$ (218)	\$ (223,856)	\$ 64,890

**Consolidated Statement of Income**  
**Year Ended December 31, 2003**

	Parent	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
(in thousands)						
<b>REVENUES:</b>						
Service revenues	\$	\$	\$ 369,851	\$	\$	\$ 369,851
Equipment revenues		9,372	71,886			81,258
Total revenues		9,372	441,737			451,109
<b>OPERATING EXPENSES:</b>						
Cost of service (excluding depreciation and amortization expense shown separately below)			122,211			122,211
Cost of equipment		8,242	142,590			150,832
Selling, general and administrative expenses (excluding depreciation and amortization expense shown separately below)		21,671	72,402			94,073
Depreciation and amortization		1,058	41,370			42,428
Loss on disposal of assets		13	379			392
Total operating expenses		30,984	378,952			409,936
Income from operations		(21,612)	62,785			41,173
<b>OTHER EXPENSE (INCOME):</b>						
Interest expense		4,613	6,502			11,115
Earnings from consolidated subsidiaries		(56,886)			56,886	
Interest income		(996)				(996)
Gain on extinguishment of debt			(603)			(603)
Total other expense		(53,269)	5,899		56,886	9,516
Income before provision for income taxes and cumulative effect of change in accounting principle		31,657	56,886		(56,886)	31,657
Provision for income taxes		(16,179)				(16,179)
Income before cumulative effect of change in accounting principle		15,478	56,886		(56,886)	15,478
Cumulative effect of change in accounting principle		(120)				(120)
Net income	\$	\$ 15,358	\$ 56,886	\$	\$ (56,886)	\$ 15,358



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Consolidated Statement of Cash Flows  
Year Ended December 31, 2005

	Parent	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
(in thousands)						
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>						
Net income (loss)	\$ 198,928	\$ 198,587	\$ 423,986	\$ (27,925)	\$ (594,899)	\$ 198,677
Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities:						
Depreciation and amortization		120	87,775			87,895
Provision for uncollectible accounts receivable		129				129
Deferred rent expense		(72)	4,479			4,407
Cost of abandoned cell sites			725			725
Non-cash interest expense		3,695	590	26,997	(26,997)	4,285
Gain on disposal of assets			(218,203)			(218,203)
Loss on extinguishment of debt		44,589	1,859			46,448
Gain on sale of investments	(154)	(36)				(190)
Accretion of asset retirement obligation		1	422			423
Accretion of put option in majority-owned subsidiary					252	252
Deferred income taxes	52,882	72,173				125,055
Stock-based compensation expense			2,596			2,596
Changes in assets and liabilities	(272,868)	(608,004)	13,857	862	896,870	30,717
Net cash (used in) provided by operating activities	(21,212)	(288,818)	318,086	(66)	275,226	283,216
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>						
Purchases of property and equipment			(266,033)	(466)		(266,499)
Change in prepaid purchases of property and equipment			(11,800)			(11,800)
Proceeds from sale of property and equipment			146			146
Purchase of investments	(54,262)	(685,220)				(739,482)
Proceeds from sale of investments	30,225	356,219				386,444
Change in restricted cash and investments		(121)	14			(107)
Purchases of FCC licenses			(235,330)	(268,600)		(503,930)
Proceeds from sale of FCC licenses			230,000			230,000
Net cash used in investing activities	(24,037)	(329,122)	(283,003)	(269,066)		(905,228)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>						
Change in book overdraft		(565)				(565)
Payment upon execution of cash flow hedging derivative		(1,899)				(1,899)
Proceeds from Credit Agreements		902,875				902,875
Proceeds from Bridge Credit Agreements		540,000				540,000
Proceeds from long-term note to parent				275,226	(275,226)	
Debt issuance costs		(29,480)				(29,480)
Repayment of debt		(719,671)	(34,991)			(754,662)
Proceeds from repayment of subscriptions receivable		103				103
Proceeds from issuance of preferred stock, net of issuance costs	46,662					46,662
Proceeds from exercise of stock options and warrants	9,210					9,210
	55,872	691,363	(34,991)	275,226	(275,226)	712,244

**Consolidated Statement of Cash Flows**  
**Year Ended December 31, 2005**

Net cash provided by (used in) financing activities						
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>	10,623	73,423	92	6,094		90,232
<b>CASH AND CASH EQUIVALENTS, beginning of period</b>	1	22,349	127			22,477
<b>CASH AND CASH EQUIVALENTS, end of period</b>	\$ 10,624	\$ 95,772	\$ 219	\$ 6,094	\$	\$ 112,709

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Consolidated Statement of Cash Flows  
Year Ended December 31, 2004

	Parent	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
(in thousands)						
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>						
Net income (loss)	\$ 54,294	\$ 66,609	\$ 168,061	\$ (218)	\$ (223,856)	\$ 64,890
Adjustments to reconcile net income to net cash (used in) provided by operating activities:						
Depreciation and amortization		915	61,286			62,201
Provision for uncollectible accounts receivable		125				125
Deferred rent expense		15	3,451			3,466
Cost of abandoned cell sites			1,021			1,021
Non-cash interest expense		470	2,419	56	(56)	2,889
Loss (gain) on disposal of assets		24	3,185			3,209
(Gain) loss on extinguishment of debt			(698)			(698)
(Gain) loss on sale of investments		576				576
Accretion of asset retirement obligation		(1)	254			253
Accretion of put option in majority-owned subsidiary					8	8
Deferred income taxes	(921)	45,362				44,441
Stock-based compensation expense		10,429				10,429
Changes in assets and liabilities	(53,837)	(314,588)	77,929	143	247,922	(42,431)
Net cash (used in) provided by operating activities	(464)	(190,064)	316,908	(19)	24,018	150,379
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>						
Purchases of property and equipment		(1,558)	(249,272)			(250,830)
Purchase of investments		(158,672)				(158,672)
Proceeds from sale of investments		307,220				307,220
Change in restricted cash and investments		(1,511)				(1,511)
Purchases of FCC licenses		(8,700)	(53,325)			(62,025)
Deposit to FCC for licenses				(25,000)		(25,000)
Microwave relocation costs			(63)			(63)
Net cash provided by (used in) investing activities		136,779	(302,660)	(25,000)		(190,881)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>						
Change in book overdraft		5,778				5,778
Proceeds from short-term notes payable		1,703				1,703
Proceeds from long-term note to parent				18,352	(18,352)	
Proceeds from capital contributions				6,667	(6,667)	
Debt issuance costs		(164)				(164)
Repayment of debt			(14,215)			(14,215)
Proceeds from minority interest in majority-owned subsidiary					1,000	1,000
Proceeds from issuance of preferred stock, net of issuance costs	5					5
Proceeds from exercise of stock options and warrants	460					460
Net cash provided by (used in) financing activities	465	7,317	(14,215)	25,019	(24,019)	(5,433)

Consolidated Statement of Cash Flows  
Year Ended December 31, 2004

<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	1	(45,968)	33	(1)	(45,935)
<b>CASH AND CASH EQUIVALENTS, beginning of period</b>		68,318	94		68,412
<b>CASH AND CASH EQUIVALENTS, end of period</b>	\$ 1	\$ 22,350	\$ 127	\$ (1)	\$ 22,477

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Consolidated Statement of Cash Flows  
Year Ended December 31, 2003

	Parent	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
(in thousands)						
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>						
Net income	\$	\$ 15,358	\$ 56,886	\$	\$ (56,886)	\$ 15,358
Adjustments to reconcile net income to net cash (used in) provided by operating activities:						
Cumulative effect of change in accounting principle		120				120
Depreciation and amortization		1,058	41,370			42,428
Provision for uncollectible accounts receivable		110				110
Deferred rent expense		17	2,786			2,803
Cost of abandoned cell sites			824			824
Non-cash interest expense		90	2,983			3,073
Loss on disposal of assets		13	379			392
Gain on extinguishment of debt			(603)			(603)
Accretion of asset retirement obligation		28	99			127
Deferred income taxes		18,716				18,716
Stock-based compensation expense		5,573				5,573
Changes in assets and liabilities		(57,393)	24,191		56,886	23,684
Net cash (used in) provided by operating activities		(16,310)	128,915			112,605
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>						
Purchases of property and equipment			(117,731)			(117,731)
Proceeds from sale of property and equipment			6			6
Purchase of other assets			(35)			(35)
Purchase of investments		(209,149)				(209,149)
Proceeds from sale of investments		22,650				22,650
Change in restricted cash and investments		953				953
Deposit to FCC for licenses		(1,500)				(1,500)
Microwave relocation costs			(2,062)			(2,062)
Net cash (used in) provided by investing activities		(187,046)	(119,822)			(306,868)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>						
Change in book overdraft		824				824
Proceeds from 10 <sup>3</sup> / <sub>4</sub> % Senior Notes Due 2011		145,500				145,500
Debt issuance costs		(876)				(876)
Repayment of debt			(9,077)			(9,077)
Proceeds from issuance of preferred stock, net of issuance costs		65,537				65,537
Proceeds from exercise of stock options and warrants		43				43
Net cash provided by financing activities		211,028	(9,077)			201,951
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>		7,672	16			7,688
		60,646	78			60,724

Consolidated Statement of Cash Flows  
Year Ended December 31, 2003

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CASH AND CASH EQUIVALENTS,  
beginning of period

CASH AND CASH EQUIVALENTS, end  
of period

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\$	\$	68,318	\$	94	\$	\$	68,412
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**20. Related-Party Transactions:**

The Company paid approximately \$0.2 million, \$0.4 million and \$0.2 million for the years ended December 31, 2005, 2004 and 2003, respectively, to a law firm for professional services, a partner of which was a director of the Company during 2004 and 2005. The Company paid approximately \$1.3 million, \$2.3 million and \$0.7 million for the years ended December 31, 2005, 2004 and 2003, respectively, to a law firm for professional services, a partner of which is related to a Company officer.

**21. Supplemental Cash Flow Information:**

	Year Ended December 31,		
	2005	2004	2003
	(in thousands)		
Cash paid for interest	\$ 41,360	\$ 19,180	\$ 3,596
Cash paid for income taxes			21

***Non-cash investing and financing activities:***

The Company accrued dividends of \$21.0 million, \$21.0 million and \$18.5 million related to the Series D Preferred Stock for the years ended December 31, 2005, 2004 and 2003, respectively.

The Company accrued dividends of \$1.0 million related to the Series E Preferred Stock for the year ended December 31, 2005.

Net changes in the Company's accrued purchases of property, plant and equipment were \$25.3 million, \$33.4 million and \$19.9 million for the years ended December 31, 2005, 2004 and 2003, respectively. Of the \$33.4 million net change for the year ended December 31, 2004, \$8.5 million was included in other long-term liabilities.

The Company accrued \$0.5 million and \$1.0 million of microwave relocation costs for the years ended December 31, 2004 and 2003, respectively. Accrued microwave relocation costs are included in long-term debt and other long-term liabilities.

In addition, in 2003 the Company paid a \$1.5 million security deposit toward the purchase of the Modesto, Merced, Eureka, and Redding, California spectrum purchase that was consummated in 2004.

See Note 2 for the non-cash increase in the Company's asset retirement obligations.

**22. Fair Value of Financial Instruments:**

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

***Long-Term Debt***

The fair value of the Company's long-term debt is estimated based on the quoted market prices for the same of 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 long-term debt, including current maturities, are as follows (in thousands):

	2005		2004	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
FCC notes	\$	\$	\$ 33,409	\$ 32,240
Senior Notes			150,000	160,875
Microwave relocation obligations	2,690	2,690	4,061	4,061
Credit Agreements	900,000	861,380		

### 23. Subsequent Events:

#### *Dallas/Ft. Worth Market Launch*

The Company launched service in the Dallas/Ft. Worth metropolitan area on March 23, 2006.

#### *Detroit Market Launch*

The Company launched service in the Detroit metropolitan area on April 18, 2006.

#### *\$1.25 Billion Exchangeable Senior Secured Credit Agreement*

In July 2006, MetroPCS II, Inc. ("MetroPCS II"), a wholly-owned subsidiary of MetroPCS, entered into an Exchangeable Senior Secured Credit Agreement and Guaranty Agreement, dated as of July 13, 2006 ("Senior Secured Credit Agreement"). On that same date, MetroPCS II and one of its wholly-owned subsidiaries, MetroPCS AWS, LLC, also entered into a related Security Agreement, and MetroPCS II, MetroPCS AWS, LLC, and MetroPCS II's immediate parent, MetroPCS III, Inc., also entered into a related Pledge Agreement. Under the Security Agreement, the lenders under the Senior Secured Credit Agreement hold a security interest in substantially all property, including capital stock, now owned or at any time acquired by the parties to that agreement, except for certain permitted exceptions or as prohibited by law. Under the terms of the Pledge Agreement, the lenders under the Senior Secured Credit Agreement hold a security interest in the capital stock of the subsidiaries of the parties to that agreement.

The aggregate credit commitments available under the Senior Secured Credit Agreement total \$1.25 billion. The Senior Secured Credit Agreement provides that all borrowings are senior secured obligations of MetroPCS II and all borrowings are guaranteed by certain subsidiaries of MetroPCS II. On July 14, 2006, the lenders funded \$200.0 million under the Senior Secured Credit Agreement.

#### *Auction No. 66*

The FCC has announced plans to auction 90 MHz of spectrum to be used for Advanced Wireless Services in Auction No. 66 which is currently scheduled to commence on August 9, 2006. MetroPCS AWS, LLC filed an application with the FCC to participate in Auction No. 66 and the application has been accepted for filing. On July 17, 2006, MetroPCS AWS, LLC submitted an upfront payment to the FCC in the amount of \$200.0 million to qualify to participate in Auction No. 66.



## MetroPCS Communications, Inc. and Subsidiaries

## Condensed Consolidated Balance Sheets

(in thousands, except share and per share information)

(Unaudited)

	September 30, 2006	Pro Forma September 30, 2006	December 31, 2005
<b>CURRENT ASSETS:</b>			
Cash and cash equivalents	\$ 116,265		\$ 112,709
Short-term investments	229,546		390,422
Inventories, net	39,648		39,431
Accounts receivable (net of allowance for uncollectible accounts of \$1,806 and \$2,383 at September 30, 2006 and December 31, 2005, respectively)	23,506		16,028
Prepaid charges	25,854		21,430
Deferred charges	21,442		13,270
Deferred tax asset	10,365		2,122
Other current assets	22,870		16,690
	<b>489,496</b>		<b>612,102</b>
Total current assets	489,496		612,102
Property and equipment, net	1,207,982		831,490
Restricted cash and investments	6,163		2,920
Long-term investments	2,272		5,052
PCS licenses	681,475		681,299
Microwave relocation costs	9,187		9,187
Long-term deposits	200,165		84
Other assets	29,434		16,847
	<b>2,626,174</b>		<b>2,158,981</b>
Total assets	\$ 2,626,174		\$ 2,158,981
<b>CURRENT LIABILITIES:</b>			
Accounts payable and accrued expenses	\$ 281,789		\$ 174,220
Current maturities of long-term debt	200,000		2,690
Deferred revenue	78,600		56,560
Other current liabilities	2,989		2,147
	<b>563,378</b>		<b>235,617</b>
Total current liabilities	563,378		235,617
Long-term debt, net	902,594		902,864
Deferred tax liabilities	196,314		146,053
Deferred rents	20,104		14,739
Redeemable minority interest	3,823		1,259
Other long-term liabilities	24,023		20,858
	<b>1,710,236</b>		<b>1,321,390</b>
Total liabilities	1,710,236		1,321,390
<b>COMMITMENTS AND CONTINGENCIES (See Note 11)</b>			
<b>SERIES D CUMULATIVE CONVERTIBLE REDEEMABLE PARTICIPATING PREFERRED STOCK</b> , par value \$0.0001 per share, 4,000,000 shares designated, 3,500,993 shares issued and outstanding at September 30, 2006 and December 31, 2005; Liquidation preference of \$442,093 and \$426,382 at September 30, 2006 and December 31, 2005, respectively			
	437,955		421,889
<b>SERIES E CUMULATIVE CONVERTIBLE REDEEMABLE PARTICIPATING PREFERRED STOCK</b> , par value \$0.0001 per share, 500,000 shares designated, 500,000 shares issued and outstanding at September 30, 2006 and December 31, 2005; Liquidation preference of \$53,263 and \$51,019 at September 30, 2006 and December 31, 2005, respectively			
	50,294		47,796
<b>STOCKHOLDERS' EQUITY:</b>			

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	September 30, 2006	Pro Forma September 30, 2006	December 31, 2005
	<u>          </u>	<u>          </u>	<u>          </u>
Preferred stock, 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 (presented above) issued and outstanding at September 30, 2006 and December 31, 2005			
Common Stock, par value \$0.0001 per share, 300,000,000 shares authorized, 52,071,221 and 51,775,698 shares issued and outstanding at September 30, 2006 and December 31, 2005, respectively	5	10	5
Additional paid-in capital	157,712	645,956	149,594
Deferred compensation			(178)
Retained earnings	268,762	268,762	216,702
Accumulated other comprehensive income	1,210	1,210	1,783
	<u>          </u>	<u>          </u>	<u>          </u>
Total stockholders' equity	427,689	915,938	367,906
	<u>          </u>	<u>          </u>	<u>          </u>
Total liabilities and stockholders' equity	\$ 2,626,174		\$ 2,158,981
	<u>          </u>	<u>          </u>	<u>          </u>

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

## MetroPCS Communications, Inc. and Subsidiaries

## Condensed Consolidated Statements of Income and Comprehensive Income

(in thousands, except share and per share information)

(Unaudited)

	For the nine months ended September 30,	
	2006	2005
<b>REVENUES:</b>		
Service revenues	\$ 916,179	\$ 631,209
Equipment revenues	177,592	118,990
Total revenues	1,093,771	750,199
<b>OPERATING EXPENSES:</b>		
Cost of service (excluding depreciation and amortization expense of \$87,602 and \$57,270, shown separately below)	313,510	201,940
Cost of equipment	330,898	210,529
Selling, general and administrative expenses (excluding depreciation and amortization expense of \$8,585 and \$4,625, shown separately below)	171,921	116,206
Depreciation and amortization	96,187	61,895
Loss (gain) loss on disposal of assets	10,763	(218,292)
Total operating expenses	923,279	372,278
Income from operations	170,492	377,921
<b>OTHER EXPENSE (INCOME):</b>		
Interest expense	67,408	40,867
Accretion of put option in majority-owned subsidiary	564	187
Interest income	(15,106)	(4,876)
(Gain) loss on extinguishment of debt	(244)	46,448
Total other expense	52,622	82,626
Income before provision for income taxes	117,870	295,295
Provision for income taxes	(47,245)	(115,460)
Net income	70,625	179,835
Accrued dividends on Series D Preferred Stock	(15,711)	(15,711)
Accrued dividends on Series E Preferred Stock	(2,244)	(263)
Accretion on Series D Preferred Stock	(355)	(355)
Accretion on Series E Preferred Stock	(254)	(30)
Net income applicable to Common Stock	\$ 52,061	\$ 163,476
Net income	\$ 70,625	\$ 179,835
<b>Other comprehensive income:</b>		
Unrealized (loss) gain on available-for-sale securities, net of tax	(847)	104
Unrealized gain on cash flow hedging derivative, net of tax	896	1,495
Reclassification adjustment for gains included in net income, net of tax	(622)	(30)
Comprehensive income	\$ 70,052	\$ 181,404

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For the nine months ended  
September 30,

	For the nine months ended September 30,	
Net income per common share: (See Note 10)		
Basic	\$ 0.57	\$ 2.02
Diluted	\$ 0.56	\$ 1.74
Weighted average shares:		
Basic	51,890,687	43,517,417
Diluted	53,158,789	50,417,637

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

## MetroPCS Communications, Inc. and Subsidiaries

## Condensed Consolidated Statements of Cash Flows

(in thousands)

(Unaudited)

	For the nine months ended September 30,	
	2006	2005
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 70,625	\$ 179,835
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	96,187	61,895
Provision for (recovery of) uncollectible accounts receivable	64	(38)
Deferred rent expense	5,365	3,091
Cost of abandoned cell sites	2,069	251
Non-cash interest expense	3,702	3,766
Loss (gain) on disposal of assets	10,763	(218,292)
(Gain) loss on extinguishment of debt	(244)	46,448
(Gain) loss on sale of investments	(1,875)	49
Accretion of asset retirement obligation	469	103
Accretion of put option in majority-owned subsidiary	564	187
Deferred income taxes	41,792	113,580
Stock-based compensation expense	7,750	3,302
Changes in assets and liabilities:		
Inventories	(220)	14,825
Accounts receivable	(7,542)	(3,721)
Prepaid expenses	(7,365)	(1,890)
Deferred charges	(8,172)	(4,443)
Other assets	(2,974)	(4,804)
Accounts payable and accrued expenses	49,121	40,060
Deferred revenue	22,055	10,830
Other liabilities	2,554	1,981
Net cash provided by operating activities	284,688	247,015
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of property and equipment	(453,864)	(204,450)
Change in prepaid purchases of property and equipment	2,427	(4,336)
Proceeds from sale of property and equipment	2,548	123
Purchase of investments	(737,088)	(427,732)
Proceeds from sale of investments	900,189	171,725
Change in restricted cash and investments	(3,291)	(50,510)
Purchases of FCC licenses	(176)	(235,330)
Deposit to FCC for licenses	(200,000)	(268,599)
Proceeds from sale of FCC licenses		230,000
Net cash used in investing activities	(489,255)	(789,109)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Change in book overdraft	22,993	11,105
Proceeds from bridge credit agreements	200,000	540,000
Proceeds from Credit Agreements		750,000
Payment upon execution of cash flow hedging derivative		(1,899)
Debt issuance costs	(15,313)	(28,801)
Repayment of debt	(2,446)	(753,080)
Proceeds from minority interest in majority-owned subsidiary	2,000	
Proceeds from issuance of preferred stock, net of issuance costs		46,688
Proceeds from exercise of stock options and warrants	889	764

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	<b>For the nine months ended September 30,</b>	
	<u>                    </u>	<u>                    </u>
Net cash provided by financing activities	208,123	564,777
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>	3,556	22,683
<b>CASH AND CASH EQUIVALENTS, beginning of period</b>	112,709	22,477
	<u>                    </u>	<u>                    </u>
<b>CASH AND CASH EQUIVALENTS, end of period</b>	\$ 116,265	\$ 45,160
	<u>                    </u>	<u>                    </u>

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

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**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 wholly-owned and majority-owned subsidiaries (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"), and its results of operations are consolidated with MetroPCS. The redeemable minority interest in Royal Street is included in long-term liabilities. All significant intercompany balances and transactions have been eliminated in consolidation. The condensed consolidated interim balance sheets as of September 30, 2006 and December 31, 2005, the condensed consolidated interim statements of income and comprehensive income and cash flows for the nine months ended September 30, 2006 and 2005, and the related footnotes are prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP").

The unaudited pro forma balance sheet data presented as of September 30, 2006 reflects the conversion of all outstanding shares of preferred stock as of that date into common stock, which will occur upon closing of the proposed initial public offering.

The unaudited condensed consolidated interim 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. 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.

In accordance with Statement of Financial Accounting Standards ("SFAS") No. 123(R), "*Share-Based Payment*," ("SFAS No. 123(R)"), the Company has recognized stock-based compensation expense in an amount equal to the fair value of share-based payments, which includes stock options granted to employees. SFAS No. 123(R) replaces SFAS No. 123, "*Accounting for Stock-Based Compensation*," ("SFAS No. 123") and supersedes Accounting Principles Board ("APB") Opinion No. 25, "*Accounting for Stock Issued to Employees*," and its related interpretations ("APB No. 25"). The Company adopted SFAS No. 123(R) on January 1, 2006. Stock-based compensation expense recognized under SFAS No. 123(R) was \$7.8 million for the nine months ended September 30, 2006.

**2. Share-Based Payments:**

Prior to the first quarter of 2006, the Company measured stock-based compensation expense for its stock-based employee compensation plans using the intrinsic value method prescribed by APB No. 25, as allowed by SFAS No. 123.

Effective January 1, 2006, the Company adopted the fair value recognition provisions of SFAS No. 123(R) using the modified prospective transition method. Under that transition method, compensation expense recognized beginning on that date includes: (a) compensation expense for all share-based payments granted prior to, but not yet vested as of, January 1, 2006, based on the grant-date fair value estimated in accordance with the original provisions of SFAS No. 123, and

(b) compensation expense for all share-based payments granted on or after January 1, 2006, based on the grant-date fair value estimated in accordance with the provisions of SFAS No. 123(R). Although there was no material impact on the Company's financial position, results of operations or cash flows from the adoption of SFAS No. 123(R), the Company reclassified all deferred equity compensation on the consolidated balance sheet to additional paid-in capital upon its adoption. The period prior to the adoption of SFAS No. 123(R) does not reflect any restated amounts.

MetroPCS has two stock option plans (the "Option Plans") under which it grants options to purchase Common Stock of MetroPCS: the Second Amended and Restated 1995 Stock Option Plan, as amended ("1995 Plan"), and the 2004 Equity Incentive Compensation Plan, as amended ("2004 Plan"). The 1995 Plan was terminated in November 2005 and no further awards can be made under the 1995 Plan, but all options granted before November 2005 will remain valid in accordance with their original terms. As of September 30, 2006, the maximum number of shares reserved for the 2004 Plan was 4,700,000 shares. In December 2006, the 2004 Plan was amended to increase the number of shares of Common Stock reserved for issuance under the plan to a total of 6,200,000 shares and to include certain provisions required by California law in order to permit the Company to make option grants to California residents. Vesting periods and terms for stock option grants are determined by the plan administrator, which is MetroPCS' Board of Directors for the 1995 Plan and the Compensation Committee of the Board of Directors of MetroPCS for the 2004 Plan. No option granted under the 1995 Plan shall have a term in excess of fifteen years and no option granted under the 2004 Plan shall have a term in excess of ten years. Options granted during the nine months ended September 30, 2006 and 2005 have a vesting period of three to four years.

Options granted under the 1995 Plan are exercisable upon grant. Shares received upon exercising options prior to vesting are restricted from sale based on a vesting schedule. In the event an option holder's service with the Company is terminated, MetroPCS may repurchase unvested shares issued under the 1995 Plan at the option exercise price. Options granted under the 2004 Plan are only exercisable upon vesting. Upon exercise of options under the Option Plans, new shares of Common Stock are issued to the option holder.

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



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utilized the following weighted-average assumptions in estimating the fair value of the option grants in the nine months ended September 30, 2006 and 2005:

	Nine Months Ended September 30,	
	2006	2005
Expected dividends	0.00%	0.00%
Expected volatility	45.00%	50.00%
Risk-free interest rate	4.76%	4.11%
Expected lives in years	5.00	5.00
Weighted-average fair value of options:		
Granted at fair value	\$ 10.12	\$ 10.31
Weighted-average exercise price of options:		
Granted at fair value	\$ 22.12	\$ 21.38

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.

A summary of the status of the Company's Option Plans as of September 30, 2006 and 2005, and changes during the nine month periods then ended, is presented in the table below:

	As of September 30,			
	2006		2005	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding, beginning of period	4,834,070	\$ 12.54	10,816,285	\$ 2.76
Granted	1,274,313	\$ 22.12	1,660,795	\$ 21.38
Exercised	(105,258)	\$ 8.45	(99,405)	\$ 6.02
Forfeited	(368,054)	\$ 12.00	(322,448)	\$ 12.09
Outstanding, end of period	5,635,071	\$ 14.82	12,055,227	\$ 5.05
Options exercisable at period-end	3,649,360	\$ 10.98	11,154,412	\$ 3.72
Options vested at period-end	2,879,196		9,515,477	

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The following table summarizes information about stock options outstanding at September 30, 2006:

Exercise Price	Options Outstanding			Options Vested	
	Number of Shares	Weighted Average Contractual Life (Years)	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
\$ 0.23 - \$ 1.00	283,997	6.18	\$ 0.35	283,997	\$ 0.35
\$ 4.70 - \$ 4.70	1,356,132	5.07	\$ 4.70	1,329,671	\$ 4.70
\$ 5.62 - \$18.94	992,683	7.16	\$ 11.91	612,482	\$ 11.04
\$21.40 - \$21.40	1,180,254	8.84	\$ 21.40	469,023	\$ 21.40
\$21.46 - \$26.00	1,822,005	9.40	\$ 21.92	184,023	\$ 21.46
	<b>5,635,071</b>			<b>2,879,196</b>	

In October 2005, Madison Dearborn Capital Partners and TA Associates consummated a tender offer in which they purchased from existing stockholders shares of Series D Preferred Stock and Common Stock in MetroPCS. In connection with this transaction, 7,367,429 options granted under the Option Plans were exercised for 7,367,429 shares of Common Stock, resulting in a significant decrease in options exercisable as of September 30, 2006 compared to options exercisable as of September 30, 2005.

During the nine months ended September 30, 2005, 99,405 options granted under the Option Plans were exercised for 99,405 shares of Common Stock, respectively. The intrinsic value of these options was approximately \$1.3 million and total proceeds were approximately \$0.6 million for the nine months ended September 30, 2005. During the nine months ended September 30, 2006, 105,258 options granted under the Option Plans were exercised for 105,258 shares of Common Stock, respectively. The intrinsic value of these options was approximately \$1.6 million and total proceeds were approximately \$0.9 million for the nine months ended September 30, 2006.

As of September 30, 2006, options outstanding and exercisable under the Option Plans have a weighted average remaining contractual life of 7.68 and 6.79 years, respectively.

The following table summarizes information about unvested stock option grants:

Stock Option Grants	Shares	Weighted Average Grant-Date Fair Value
Unvested balance, January 1, 2006	2,527,553	\$ 9.00
Grants	1,274,313	\$ 10.12
Vested shares	(866,454)	\$ 8.45
Forfeitures	(179,537)	\$ 9.21
Unvested balance, September 30, 2006	<b>2,755,875</b>	<b>\$ 9.68</b>

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The Company determines fair value of stock option grants as the share price of the Company's stock at grant-date. The weighted average grant-date fair value of the stock option grants for the nine months ended September 30, 2006 and 2005 is \$10.12 and \$10.31, respectively. The weighted average exercise price of the stock options granted during the nine months ended September 30, 2006 and 2005 is \$22.12 and \$21.38, respectively.

The Company has recorded \$7.8 million and \$3.3 million of non-cash stock-based compensation expense in the nine months ended September 30, 2006 and 2005, respectively, and an income tax benefit of \$3.1 million and \$1.3 million, respectively.

As of September 30, 2006, there was approximately \$24.1 million of unrecognized stock-based compensation cost related to unvested share-based compensation arrangements, which is expected to be recognized over a weighted average period of approximately 1.46 years. Such costs were originally scheduled to be recognized as follows: \$2.8 million in the remainder of 2006, \$9.1 million in 2007, \$7.6 million in 2008, \$3.8 million in 2009 and \$0.8 million in 2010.

The total aggregate intrinsic value of stock options outstanding and exercisable as of September 30, 2006 was approximately \$63.0 million and \$54.8 million, respectively. The total fair value of stock options that vested during the nine months ended September 30, 2006 and 2005 was \$7.3 million and \$3.6 million, respectively.

The following table illustrates the effect on net income applicable to Common Stock (in thousands, except per share data) and net income per common share as if the Company had elected to recognize stock-based compensation costs based on the fair value at the date of grant for the Company's Common Stock awards consistent with the provisions of SFAS No. 123:

	<b>Nine Months Ended September 30, 2005</b>
Net income applicable to Common Stock as reported	\$ 163,476
Add: Amortization of deferred compensation determined under the intrinsic method for employee stock awards, net of tax	1,981
Less: Total stock-based employee compensation expense determined under the fair value method for employee stock awards, net of tax	(1,855)
Net income applicable to Common Stock pro forma	\$ 163,602
<b>Basic net income per common share:</b>	
As reported	\$ 2.02
Pro forma	\$ 2.02
<b>Diluted net income per common share:</b>	
As reported	\$ 1.74
Pro forma	\$ 1.75

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

Grants Made During the Quarter Ended	Number of Options Granted	Weighted Average Exercise Price	Weighted Average Market Value per Share	Weighted Average Intrinsic Value per Share
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.

In December 2006, the Company amended stock option agreements of a former member of MetroPCS' Board of Directors to extend the contractual life of 135,018 vested common stock options until December 31, 2006. This amendment will result in the recognition of additional non-cash stock-based compensation expense of approximately \$4.1 million in the fourth quarter of 2006.

In December 2006, in recognition of efforts related to the Company's pending initial public offering and to align executive ownership with the Company, the Company made a special stock option grant to its named executive officers and certain other eligible employees. The Company granted stock options to purchase an aggregate of 2,295,000 shares of the Company's common stock to its named executive officers and certain other officers and employees. The purpose of the grant was also to provide retention of employees following the Company's initial public offering as well as to motivate employees to return value to the Company's shareholders through future appreciation of the Company's common stock price. The exercise price for the option grants is \$34.00, which is the fair market value of the Company's common stock on the date of the grant as determined by the Company's board of directors after receiving a valuation performed by an outside valuation consultant. The stock options granted to the named executive officers other than the Company's CEO will generally vest on a four-year vesting schedule with 25% vesting on the first anniversary date of the award and pro-rata on a monthly basis thereafter. The stock options granted to the Company's CEO will vest on a three-year vesting schedule with one-third vesting on the first anniversary date of the award and pro-rata on a monthly basis thereafter. The stock options granted to the Company's senior vice president and chief technology officer will vest over a two-year vesting schedule with one-half vesting on the first anniversary of the award and pro-rata on a monthly basis thereafter.

**3. Property and Equipment:**

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

	September 30, 2006	December 31, 2005
Construction-in-progress	\$ 206,599	\$ 98,078
Network infrastructure	1,244,749	905,924
Office equipment	28,545	17,059
Leasehold improvements	21,428	16,608
Furniture and fixtures	5,938	4,000
Vehicles	185	118
	<u>1,507,444</u>	<u>1,041,787</u>
Accumulated depreciation	(299,462)	(210,297)
Property and equipment, net	<u>\$ 1,207,982</u>	<u>\$ 831,490</u>

**4. PCS Licenses:***Auction 66*

The Federal Communications Commission ("FCC") auctioned 90 MHz of spectrum to be used for Advanced Wireless Services ("AWS") in Auction 66 which commenced on August 9, 2006. On July 17, 2006, MetroPCS AWS, LLC, an indirect, wholly-owned subsidiary of MetroPCS II, Inc., submitted an upfront payment to the FCC in the amount of \$200.0 million to qualify to participate in Auction 66.

Auction 66 concluded on September 21, 2006 and the Company was declared the high bidder on licenses covering a total unique population of 117 million, with total aggregate winning bids of approximately \$1.4 billion (See Note 17). These new expansion opportunities cover six of the 25 largest metropolitan markets in the United States. The expansion opportunities in the eastern United States 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, these new expansion opportunities cover a geographic area including the San Diego, Portland, Seattle and Las Vegas metropolitan areas. The balance of the licenses supplements or expands the geographic boundaries of our existing operations in Dallas/Ft. Worth, Detroit, Los Angeles, San Francisco and Sacramento.

**5. Accounts Payable and Accrued Expenses:**

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

	September 30, 2006	December 31, 2005
Accounts payable	\$ 59,446	\$ 29,430
Book overdraft	32,913	9,920
Accrued accounts payable	92,429	69,611
Accrued liabilities	8,624	7,590
Payroll and employee benefits	13,535	12,808
Accrued interest	29,664	17,578
Taxes, other than income	37,896	23,211
Income taxes	7,282	4,072
	<b>281,789</b>	<b>174,220</b>
Accounts payable and accrued expenses	\$ 281,789	\$ 174,220

**6. Long-Term Debt:**

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

	September 30, 2006	December 31, 2005
Microwave relocation obligations	\$ 2,690	\$ 2,690
Secured Bridge Credit Facility	200,000	
Credit Agreements	900,000	900,000
	<b>1,100,000</b>	<b>902,690</b>
Total	1,100,000	902,690
Add: unamortized premium on debt	2,594	2,864
	<b>1,102,594</b>	<b>905,554</b>
Total debt	1,102,594	905,554
Less: current maturities	(200,000)	(2,690)
	<b>902,594</b>	<b>902,864</b>
Total long-term debt	\$ 902,594	\$ 902,864

**Bridge Credit Agreement**

In February 2005, MetroPCS Wireless, Inc. ("Wireless") entered into a secured bridge credit facility, dated as of February 22, 2005, as amended ("Bridge Credit Agreement"). The aggregate credit commitments available under the Bridge Credit Agreement totaled \$540.0 million. The lenders funded \$240.0 million and \$300.0 million under the Bridge Credit Agreement in February 2005 and March 2005, respectively.

The Bridge Credit Agreement provided that all borrowings were senior secured obligations of Wireless and were guaranteed on a senior secured basis by MetroPCS, Inc. and its wholly-owned subsidiaries (other than Wireless). The obligations under the Bridge Credit Agreement were secured by security interests in substantially all of the assets of MetroPCS, Inc. and its wholly-owned subsidiaries,

including capital stock, except as prohibited by law and certain permitted exceptions, as more fully described in the Security Agreement and the Pledge Agreement both dated as of February 22, 2005, as amended.

In May 2005, Wireless repaid the aggregate outstanding principal balance under the Bridge Credit Agreement of \$540.0 million and accrued interest of \$8.7 million. As a result, Wireless recorded a loss on extinguishment of debt in the amount of approximately \$10.4 million.

***FCC Debt***

On March 2, 2005, in connection with the sale of a 10 MHz portion of a 30 MHz PCS license in the San Francisco-Oakland-San Jose, California basic trading area, the Company repaid the outstanding principal balance of \$12.2 million in debt payable to the FCC. This debt was incurred in connection with the original acquisition of the 30 MHz PCS license for the San Francisco-Oakland-San Jose basic trading area. The repayment resulted in a loss on extinguishment of debt of \$0.9 million.

On May 31, 2005, the Company repaid the remaining outstanding principal balance of \$15.7 million in debt payable to the FCC. This debt was incurred in connection with the Company's original PCS licenses acquired by the Company in the FCC auction in May 1996. The repayment resulted in a loss on extinguishment of debt of approximately \$1.0 million.

***\$150 Million 10<sup>3</sup>/<sub>4</sub>% Senior Notes***

On September 29, 2003, MetroPCS, Inc. completed the sale of \$150.0 million of 10<sup>3</sup>/<sub>4</sub>% Senior Notes due 2011 (the "10<sup>3</sup>/<sub>4</sub>% Senior Notes"). MetroPCS, Inc. was subject to certain covenants set forth in the indenture governing the 10<sup>3</sup>/<sub>4</sub>% Senior Notes. On November 3, 2004, MetroPCS, Inc. received and accepted consents from the holders of a majority of its 10<sup>3</sup>/<sub>4</sub>% Senior Notes to a limited waiver, for up to 180 days, of any default or event of default arising from a failure of the Company to comply with a reporting covenant in the 10<sup>3</sup>/<sub>4</sub>% Senior Notes. Accordingly, the reporting covenant was waived until the close of business on May 2, 2005.

On May 10, 2005, holders of all of the 10<sup>3</sup>/<sub>4</sub>% Senior Notes tendered their 10<sup>3</sup>/<sub>4</sub>% Senior Notes in response to MetroPCS, Inc.'s cash tender offer and consent solicitation. As a result, MetroPCS, Inc. executed a supplemental indenture governing the 10<sup>3</sup>/<sub>4</sub>% Senior Notes to eliminate substantially all of the restrictive covenants and event of default provisions in the indenture, to amend other provisions of the indenture, and to waive any and all defaults and events of default that may have existed under the indenture. On May 31, 2005, MetroPCS, Inc. purchased all of its outstanding 10<sup>3</sup>/<sub>4</sub>% Senior Notes in the tender offer. MetroPCS, Inc. paid the holders of the 10<sup>3</sup>/<sub>4</sub>% Senior Notes \$178.9 million plus accrued interest of \$2.7 million in the tender offer, resulting in a loss on extinguishment of debt of \$34.0 million.

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

On May 31, 2005, MetroPCS, Inc. and Wireless, both wholly-owned subsidiaries of MetroPCS, entered into a First Lien Credit Agreement, maturing May 31, 2011, and a Second Lien Credit Agreement maturing May 31, 2012 (collectively, the "Credit Agreements"), which provided for total borrowings of up to \$900.0 million. MetroPCS, Inc. and its wholly-owned subsidiaries also entered into

Guarantee and Collateral Agreements, dated as of May 31, 2005, in connection with the Credit Agreements, in which the lenders hold a security interest in substantially all property, including capital stock, now owned or at any time acquired by MetroPCS, Inc. and its wholly-owned subsidiaries, except for certain permitted exceptions or as prohibited by law. Royal Street did not enter into any Guarantee and Collateral Agreements in connection with the Credit Agreements, however, MetroPCS pledged the intercompany promissory note that Royal Street has given the Company in connection with amounts borrowed by Royal Street from Wireless as collateral. On May 31, 2005, Wireless borrowed \$500.0 million under the First Lien Credit Agreement and \$250.0 million under the Second Lien Credit Agreement.

On December 19, 2005, Wireless entered into amendments to the Credit Agreements and borrowed an additional \$50.0 million under the First Lien Credit Agreement and an additional \$100.0 million under the Second Lien Credit Agreement. Under the amendments to the Credit Agreements the total amount available under the First Lien Credit Agreement increased by \$330.0 million and the total amount available under the Second Lien Credit Agreement increased by \$220.0 million, for a total increase in the amounts available under the Credit Agreements of \$550.0 million.

#### ***Interest Rate Cap Agreement***

On June 27, 2005, Wireless entered into a three-year interest rate cap agreement, as required by Wireless' Credit Agreements, to mitigate the impact of interest rate changes on 50% of the aggregate debt outstanding thereunder. This financial instrument is being accounted for in accordance with SFAS No. 133, "*Accounting for Derivative Instruments and Hedging Activities*," ("SFAS No. 133"). SFAS No. 133 addresses the accounting for financial instruments that are designated as cash flow hedges and the effective portion of the change in value of the financial instrument is reported as a component of the Company's other comprehensive income and reclassified into earnings in the same periods during which the hedged transaction affects earnings. Comprehensive income is comprised of net income and includes the impact of a deferred gain on the change in the fair value of the financial instrument. Wireless paid \$1.9 million upon execution of the agreement and the financial instrument is reported in other current assets and long-term investments at fair market value, which was \$4.4 million and \$5.1 million as of September 30, 2006 and December 31, 2005, respectively. The change in fair value is reported in accumulated other comprehensive income on the condensed consolidated interim balance sheets, net of income taxes.

#### ***\$1.25 Billion Exchangeable Senior Secured Credit Agreement***

In July 2006, MetroPCS II, Inc. ("MetroPCS II"), a wholly-owned subsidiary of MetroPCS, entered into an Exchangeable Senior Secured Credit Agreement and Guaranty Agreement, dated as of July 13, 2006 ("Secured Bridge Credit Facility"). On that same date, MetroPCS II and one of its wholly-owned subsidiaries, MetroPCS AWS, LLC, also entered into a related Security Agreement, and MetroPCS II, MetroPCS AWS, LLC, and MetroPCS II's immediate parent, MetroPCS III, Inc., also entered into a related Pledge Agreement. Under the Security Agreement, the lenders under the Secured Bridge Credit Facility hold a security interest in substantially all property, including capital stock, now owned or at any time acquired by the parties to that agreement, except for certain permitted exceptions or as



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prohibited by law. Under the terms of the Pledge Agreement, the lenders under the Secured Bridge Credit Facility hold a security interest in the capital stock of the subsidiaries of the parties to that agreement.

The aggregate credit commitments available under the Secured Bridge Credit Facility total \$1.25 billion. The Secured Bridge Credit Facility provides that all borrowings are senior secured obligations of MetroPCS II and all borrowings are guaranteed by certain subsidiaries of MetroPCS II. On July 14, 2006, the lenders funded \$200.0 million under the Secured Bridge Credit Facility.

### 7. Asset Retirement Obligations:

The Company accounts for asset retirement obligations as determined by SFAS No. 143, "Accounting for Asset Retirement Obligations," ("SFAS No. 143") and Financial Accounting Standards Board ("FASB") Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations, an interpretation of FASB Statement No. 143," ("FIN No. 47"). SFAS No. 143 and FIN No. 47 address financial accounting and reporting for legal obligations associated with the retirement of tangible long-lived assets and the related asset retirement costs. SFAS No. 143 requires that companies recognize the fair value of a liability for an asset retirement obligation in the period in which it is incurred. When the liability is initially recorded, the entity capitalizes a cost by increasing the carrying amount of the related long-lived asset. Over time, the liability is accreted to its present value each period, and the capitalized cost is depreciated over the estimated useful life of the related asset. Upon settlement of the liability, an entity either settles the obligation for its recorded amount or incurs a gain or loss upon settlement.

The Company is subject to asset retirement obligations associated with its cell site operating leases, which are subject to the provisions of SFAS No. 143 and FIN No. 47. Cell site lease agreements may contain clauses requiring restoration of the leased site at the end of the lease term to its original condition, creating an asset retirement obligation. This liability is classified under other long-term liabilities. Landlords may choose not to exercise these rights as cell sites are considered useful improvements. In addition to cell site operating leases, the Company has leases related to switch site, retail, and administrative locations subject to the provisions of SFAS No. 143 and FIN No. 47.

The following table summarizes the Company's asset retirement obligation transactions (in thousands):

	<b>September 30, 2006</b>	<b>December 31, 2005</b>
	<u>                    </u>	<u>                    </u>
Beginning asset retirement obligations	\$ 3,522	\$ 1,893
Liabilities incurred	972	1,206
Accretion expense	469	423
	<u>                    </u>	<u>                    </u>
Ending asset retirement obligations	\$ 4,963	\$ 3,522
	<u>                    </u>	<u>                    </u>

### 8. Income Taxes:

The Company records income taxes pursuant to SFAS No. 109, "Accounting for Income Taxes," ("SFAS No. 109"). SFAS No. 109 uses an asset and liability approach to account for income taxes,

wherein deferred taxes are provided for book and tax basis differences for assets and liabilities. In the event differences between the financial reporting basis and the tax basis of the Company's assets and liabilities result in deferred tax assets, a valuation allowance is provided for a portion or all of the deferred tax assets when there is sufficient uncertainty regarding the Company's ability to recognize the benefits of the assets in future years.

Income before provision for income taxes for the nine months ended September 30, 2005 included a gain on the sale of a 10 MHz portion of the Company's 30 MHz PCS license in the San Francisco-Oakland-San Jose basic trading area in the amount of \$228.2 million. At December 31, 2005, the Company has approximately \$228.7 million and \$102.5 million of net operating loss carryforwards for federal and state income tax purposes, respectively. The federal net operating loss will begin expiring in 2023. The state net operating losses will begin to expire in 2013. The Company has been able to take advantage of accelerated depreciation and like kind exchange gain deferral available under federal tax law, which has created a significant deferred tax liability. The reversal of the timing differences which gave rise to the deferred tax liability, future taxable income and future tax planning strategies will allow the Company to benefit from the deferred tax assets. The Company has no valuation allowance as of September 30, 2006 and a valuation allowance of \$0.2 million as of December 31, 2005, relating primarily to state net operating losses.

On May 18, 2006, the Texas Governor signed into law a Texas margin tax ("H.B. No. 3") which restructures the state business tax by replacing the taxable capital and earned surplus components of the current franchise tax with a new "taxable margin" component. Because the tax base on the Texas margin tax is derived from an income-based measure, the Company believes the margin tax is an income tax and, therefore, the provisions of SFAS No. 109 regarding the recognition of deferred taxes apply to the new margin tax. In accordance with SFAS No. 109, the effect on deferred tax assets of a change in tax law should be included in tax expense attributable to continuing operations in the period that includes the enactment date. Although the effective date of H.B. No. 3 is January 1, 2008, certain effects of the change should be reflected in the financial statements of the first interim or annual reporting period that includes May 18, 2006. The Company has recorded a deferred tax liability of \$0.1 million as of September 30, 2006 relating to H.B. No. 3.

#### ***Internal Revenue Service Audit***

The Internal Revenue Service (the "IRS") commenced an audit of MetroPCS' 2002 and 2003 federal income tax returns in March 2005. In October 2005 the IRS issued a 30-day letter which primarily related to depreciation expense claimed on the returns under audit. The Company filed an appeal of the auditor's assessments in November 2005. The IRS appeals officer made the Company an offer to settle all issues in July 2006. The expected net result of the settlement offer should create an increase to 2002 taxable income of \$3.9 million and an increase to the 2003 net operating loss of \$0.5 million. The increase to 2002 taxable income would be offset by net operating loss carryback from 2003. The Company owes additional interest on the 2002 deferred taxes of approximately \$0.1 million, but no additional tax or penalty. In addition, the IRS Joint Committee concluded its review of the audit and issued a closing letter dated September 5, 2006.

**9. Stockholders' Equity:***Common Stock Issued to Directors*

Non-employee members of MetroPCS' Board of Directors receive compensation for serving on the Board of Directors, as defined in MetroPCS' Non-Employee Director Remuneration Plan. The annual retainer provided under the Non-Employee Director Remuneration Plan may be paid in cash, Common Stock, or a combination of cash and Common Stock. During the nine months ended September 30, 2006, non-employee members of the Board of Directors were issued 14,615 shares of Common Stock as payment of their annual retainer.

**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):

	Nine Months Ended September 30,	
	2006	2005
<b>Basic EPS Two Class Method:</b>		
Net income	\$ 70,625	\$ 179,835
Accrued dividends and accretion:		
Series D Preferred Stock	(16,066)	(16,066)
Series E Preferred Stock	(2,498)	(293)
Net income applicable to common stock	\$ 52,061	\$ 163,476
Amount allocable to common shareholders	57.0%	53.7%
Rights to undistributed earnings	\$ 29,691	\$ 87,858
Weighted average shares outstanding basic	51,890,687	43,517,417
Net income per common share basic	\$ 0.57	\$ 2.02
<b>Diluted EPS:</b>		
Rights to undistributed earnings	\$ 29,691	\$ 87,858
Weighted average shares outstanding basic	51,890,687	43,517,417
Effect of dilutive securities:		
Warrants	49,086	769,325
Stock options	1,219,016	6,130,895
Weighted average shares outstanding diluted	53,158,789	50,417,637
Net income per common share diluted	\$ 0.56	\$ 1.74

At September 30, 2006 and 2005, 45.4 million and 43.1 million, respectively, of convertible shares of Series D Preferred Stock were excluded from the calculation of diluted net income per common share since the effect was anti-dilutive.



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At September 30, 2006 and 2005, 1.9 million and 0.2 million, respectively, of convertible shares of Series E Preferred Stock were excluded from the calculation of diluted net income per common share since the effect was anti-dilutive.

Pro forma net income per common share, presented below, gives effect to the conversion of all outstanding shares of Series D Preferred Stock and Series E Preferred Stock, as well as accrued, but unpaid dividends, in connection with the proposed initial public offering. As a result of the conversion of the Series D Preferred Stock and the Series E Preferred Stock, pro forma net income per common share is not calculated using the two-class method, as presented above.

	<b>Nine Months Ended September 30, 2006</b>
Net income (in thousands)	\$ 70,625
Basic net income per common share Pro forma	\$ 0.71
Diluted net income per common share Pro forma	\$ 0.70
Shares used in computing pro forma basic net income per common share	99,140,030
Shares used in computing pro forma diluted net income per common share	100,408,133

### 11. Commitments and Contingencies:

#### *Litigation*

The Company is involved in various claims and legal actions arising in the ordinary course of business. The ultimate disposition of these matters is not expected to have a material adverse impact on the Company's financial position, results of operations or liquidity.

The Company is involved in various claims and legal actions in relation to claims of patent infringement. The ultimate disposition of these matters is not expected to have a material adverse impact on the Company's financial position, results of operations or liquidity.

#### *Rescission Offer*

Shares issued and options granted under the Company's 1995 Stock Option Plan and 2004 Equity Incentive Plan may not have been exempt from registration or qualification under federal securities laws and the securities laws of certain states. As a result, the Company intends to make a rescission offer to the holders of these shares and options. If this rescission offer is accepted, the Company could be required to make aggregate payments to the holders of these shares and options of up to \$2.6 million, which includes statutory interest, based on shares and options outstanding as of September 30, 2006. Federal securities laws do not provide that a rescission offer will terminate a

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purchaser's right to rescind a sale of stock that was not registered as required. If any or all of the offerees reject the rescission offer, the Company may continue to be liable for this amount under federal and state securities laws. As management believes there is only a remote possibility the rescission offer will be accepted by any of the Company's option holders and stockholders in an amount that would result in a material expenditure by the Company, no liability has been recorded. Management does not believe that this rescission offer will have a material effect on the Company's results of operations, cash flows or financial position.

### 12. Supplemental Cash Flow Information:

	<b>Nine Months Ended September 30,</b>	
	<b>2006</b>	<b>2005</b>
	<b>(in thousands)</b>	
Cash paid for interest	\$ 34,225	\$ 21,022
Cash paid for income taxes	525	

#### *Non-cash investing activities:*

Net changes in the Company's accrued purchases of property, plant and equipment were \$34.8 million and \$1.4 million for the nine months ended September 30, 2006 and 2005, respectively.

See Note 7 for non-cash increases in the Company's asset retirement obligations.

#### *Non-cash financing activities:*

MetroPCS accrued dividends of \$15.7 million and \$15.7 million related to the Series D Preferred Stock for the nine months ended September 30, 2006 and 2005, respectively.

MetroPCS accrued dividends of \$2.2 million and \$0.3 million related to the Series E Preferred Stock for the nine months ended September 30, 2006 and 2005, respectively.

### 13. Related-Party Transactions:

The Company had the following transactions with related parties:

	<b>Nine Months Ended September 30,</b>	
	<b>2006</b>	<b>2005</b>
	<b>(in thousands)</b>	
Professional services to a law firm, a partner of which was a director of the Company	\$ 44	\$ 179
Professional services to a law firm, a partner of which is related to an officer of the Company	28	1,095

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**14. Segment Information:**

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. The Company's chief operating decision maker is the Chairman of the Board and Chief Executive Officer.

As of September 30, 2006, the Company 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 provides 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.

The Company aggregates its 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 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 the Company launches service in that operating segment. Expenses associated with the Company's national data center are allocated based on the average number of customers in each operating segment. There are no transactions between reportable segments.

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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.

Nine Months Ended September 30, 2006	Core Markets	Expansion Markets	Other	Total
(in thousands)				
Service revenues	\$ 831,053	\$ 85,126	\$	\$ 916,179
Equipment revenues	149,200	28,392		177,592
Total revenues	980,253	113,518		1,093,771
Cost of service(1)	244,636	68,874		313,510
Cost of equipment	261,258	69,640		330,898
Selling, general and administrative expenses(2)	114,021	57,900		171,921
Adjusted EBITDA (deficit)(3)	364,585	(79,393)		
Depreciation and amortization	80,467	13,381	2,339	96,187
Stock-based compensation expense	4,246	3,504		7,750
Income (loss) from operations	269,735	(96,904)	(2,339)	170,492
Interest expense			67,408	67,408
Accretion of put option in majority-owned subsidiary			564	564
Interest and other income			(15,106)	(15,106)
Loss on extinguishment of debt			(244)	(244)
Income (loss) before provision for income taxes	269,735	(96,904)	(54,961)	117,870
Capital expenditures	187,922	256,531	9,411	453,864
Total assets	958,792	963,847	703,535	2,626,174

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Nine Months Ended September 30, 2005	Core Markets	Expansion Markets	Other	Total
(in thousands)				
Service revenues	\$ 631,208	\$ 1	\$	\$ 631,209
Equipment revenues	118,973	17		118,990
Total revenues	750,181	18		750,199
Cost of service	197,425	4,515		201,940
Cost of equipment	210,431	98		210,529
Selling, general and administrative expenses	112,137	4,069		116,206
Adjusted EBITDA (deficit)(3)	233,491	(8,665)		
Depreciation and amortization	60,158	721	1,016	61,895
Stock-based compensation expense	3,302			3,302
Income (loss) from operations	388,572	(9,635)	(1,016)	377,921
Interest expense			40,867	40,867
Accretion of put option in majority-owned subsidiary			187	187
Interest and other income			(4,876)	(4,876)
Loss on extinguishment of debt			46,448	46,448
Income (loss) before provision for income taxes	388,572	(9,635)	(83,642)	295,295
Capital expenditures	157,153	44,893	2,404	204,450
Total assets	698,623	646,107	602,055	1,946,785

- (1) Cost of service for the nine months ended September 30, 2006 includes \$1.0 million of stock-based compensation disclosed separately.
- (2) Selling, general and administrative expenses include stock-based compensation disclosed separately. For the nine months ended September 30, 2006, selling, general and administrative expenses include \$6.8 million, respectively, of stock-based compensation.
- (3) 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 each segment's ability to meet future debt service, capital expenditures and working capital requirements and to fund future growth.

**15. Guarantor Subsidiaries:**

In connection with Wireless' sale of \$1.0 billion of 9<sup>1</sup>/<sub>4</sub>% Senior Notes due 2014 (the "Notes") and the entry into a new senior secured credit facility, pursuant to which Wireless may borrow up to \$1.7 billion (the "Senior Secured Credit Facility"), MetroPCS and all of MetroPCS' subsidiaries, other than Wireless and Royal Street (the "guarantor subsidiaries") provided guarantees on the 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 restrict the ability of the guarantor subsidiaries to transfer funds to Wireless. Royal Street and its subsidiaries (the "non-guarantor subsidiaries") are not guarantors of the Notes or the Senior Secured Credit Facility.

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The following information presents condensed consolidating balance sheets as of September 30, 2006 and December 31, 2005, condensed consolidating statements of income for the nine months ended September 30, 2006 and 2005, and condensed consolidating statements of cash flows for the nine months ended September 30, 2006 and 2005 of the parent company, the issuer, the guarantor subsidiaries and the non-guarantor subsidiaries. Investments include investments in subsidiaries held by the parent company and have been presented using the equity method of accounting.

**Consolidated Balance Sheet**  
**As of September 30, 2006**

	<b>Parent</b>	<b>Issuer</b>	<b>Guarantor Subsidiaries</b>	<b>Non- Guarantor Subsidiaries</b>	<b>Eliminations</b>	<b>Consolidated</b>
(in thousands)						
<b>CURRENT ASSETS:</b>						
Cash and cash equivalents	\$ 7,338	\$ 99,985	\$ 260	\$ 8,682	\$	\$ 116,265
Short-term investments	37,844	191,702				229,546
Inventories, net		33,804	5,844			39,648
Accounts receivable, net		26,493			(2,987)	23,506
Prepaid expenses		4,751	20,861	242		25,854
Deferred charges		21,442				21,442
Deferred tax asset		10,365				10,365
Other current assets	77	5,201	17,513	79		22,870
<b>Total current assets</b>	<b>45,259</b>	<b>393,743</b>	<b>44,478</b>	<b>9,003</b>	<b>(2,987)</b>	<b>489,496</b>
Property and equipment, net		17,324	1,141,145	49,513		1,207,982
Restricted cash and investments	834	5,279		50		6,163
Long-term investments		2,272				2,272
Investment in subsidiaries	319,565	875,666			(1,195,231)	
PCS licenses			387,876	293,599		681,475
Microwave relocation costs			9,187			9,187
Long-term deposits	200,000		134	31		200,165
Long-term receivable from subsidiaries		379,242			(379,242)	
Other assets	12,889	14,040	2,461	44		29,434
<b>Total assets</b>	<b>\$ 578,547</b>	<b>\$ 1,687,566</b>	<b>\$ 1,585,281</b>	<b>\$ 352,240</b>	<b>\$ (1,577,460)</b>	<b>\$ 2,626,174</b>
<b>CURRENT LIABILITIES:</b>						
Accounts payable and accrued expenses	\$ 4,395	\$ 116,655	\$ 144,571	\$ 19,155	\$ (2,987)	\$ 281,789
Current maturities of long-term debt	200,000					200,000
Deferred revenue		15,172	63,428			78,600
Advances to subsidiaries	(542,617)	118,302	424,315			
Other current liabilities		25	2,964			2,989
<b>Total current liabilities</b>	<b>(338,222)</b>	<b>250,154</b>	<b>635,278</b>	<b>19,155</b>	<b>(2,987)</b>	<b>563,378</b>
Long-term debt, net		902,594				902,594
Long-term note to parent				379,242	(379,242)	
Deferred tax liabilities	8	196,306				196,314
Deferred rents			19,972	132		20,104
Redeemable minority interest					3,823	3,823
Other long-term liabilities		18,947	5,020	56		24,023
<b>Total liabilities</b>	<b>(338,214)</b>	<b>1,368,001</b>	<b>660,270</b>	<b>398,585</b>	<b>(378,406)</b>	<b>1,710,236</b>
<b>COMMITMENTS AND CONTINGENCIES (See Note 11)</b>						
SERIES D PREFERRED STOCK	437,955					437,955
SERIES E PREFERRED STOCK	50,294					50,294
<b>STOCKHOLDERS' EQUITY:</b>						
Preferred stock						
Common stock	5					5
Additional paid-in capital	157,712			20,000	(20,000)	157,712
Retained earnings	269,585	318,429	925,011	(66,345)	(1,177,918)	268,762

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Consolidated Balance Sheet  
As of September 30, 2006

Accumulated other comprehensive income	1,210	1,136			(1,136)	1,210
Total stockholders' equity	428,512	319,565	925,011	(46,345)	(1,199,054)	427,689
Total liabilities and stockholders' equity	\$ 578,547	\$ 1,687,566	\$ 1,585,281	\$ 352,240	\$ (1,577,460)	\$ 2,626,174

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Consolidated Balance Sheet  
As of December 31, 2005

	Parent	Issuer	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
(in thousands)						
<b>CURRENT ASSETS:</b>						
Cash and cash equivalents	\$ 10,624	\$ 95,772	\$ 219	\$ 6,094	\$	\$ 112,709
Short-term investments	24,223	366,199				390,422
Inventories, net		34,045	5,386			39,431
Accounts receivable, net		16,852			(824)	16,028
Prepaid expenses			21,412	18		21,430
Deferred charges		13,270				13,270
Deferred tax asset		2,122				2,122
Other current assets	208	2,364	14,118			16,690
<b>Total current assets</b>	<b>35,055</b>	<b>530,624</b>	<b>41,135</b>	<b>6,112</b>	<b>(824)</b>	<b>612,102</b>
Property and equipment, net			829,457	2,033		831,490
Restricted cash and investments		2,917	3			2,920
Long-term investments		16,385			(11,333)	5,052
Investment in subsidiaries	243,930	709,704			(953,634)	
PCS licenses			387,700	293,599		681,299
Microwave relocation costs			9,187			9,187
Long-term receivable from subsidiaries		320,630			(320,630)	
Other assets		15,360	1,571			16,931
<b>Total assets</b>	<b>\$ 278,985</b>	<b>\$ 1,595,620</b>	<b>\$ 1,269,053</b>	<b>\$ 301,744</b>	<b>\$ (1,286,421)</b>	<b>\$ 2,158,981</b>
<b>CURRENT LIABILITIES:</b>						
Accounts payable and accrued expenses	\$ 321	\$ 58,104	\$ 125,362	\$ 2,590	\$ (12,157)	\$ 174,220
Current maturities of long-term debt			2,690			2,690
Deferred revenue		9,158	47,402			56,560
Advances to subsidiaries	(559,186)	218,278	340,908			
Other current liabilities			2,147			2,147
<b>Total current liabilities</b>	<b>(558,865)</b>	<b>285,540</b>	<b>518,509</b>	<b>2,590</b>	<b>(12,157)</b>	<b>235,617</b>
Long-term debt, net		902,864				902,864
Long-term note to parent				320,630	(320,630)	
Deferred tax liabilities		146,053				146,053
Deferred rents			14,739			14,739
Redeemable minority interest					1,259	1,259
Other long-term liabilities		17,233	3,625			20,858
<b>Total liabilities</b>	<b>(558,865)</b>	<b>1,351,690</b>	<b>536,873</b>	<b>323,220</b>	<b>(331,528)</b>	<b>1,321,390</b>
<b>COMMITMENTS AND CONTINGENCIES (See Note 11)</b>						
SERIES D PREFERRED STOCK	421,889					421,889
SERIES E PREFERRED STOCK	47,796					47,796
<b>STOCKHOLDERS' EQUITY:</b>						
Preferred stock						
Common stock	5					5
Additional paid-in capital	149,594			20,000	(20,000)	149,594
Subscriptions receivable				(13,333)	13,333	
Deferred compensation	(178)	(178)	(178)		356	(178)
Retained earnings	216,961	242,357	732,358	(28,143)	(946,831)	216,702
Accumulated other comprehensive income	1,783	1,751			(1,751)	1,783
<b>Total stockholders' equity</b>	<b>368,165</b>	<b>243,930</b>	<b>732,180</b>	<b>(21,476)</b>	<b>(954,893)</b>	<b>367,906</b>

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Consolidated Balance Sheet  
As of December 31, 2005

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Total liabilities and stockholders' equity	\$ 278,985	\$ 1,595,620	\$ 1,269,053	\$ 301,744	\$ (1,286,421)	\$ 2,158,981
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Consolidated Statement of Income  
Nine Months Ended September 30, 2006

	Parent	Issuer	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
(in thousands)						
<b>REVENUES:</b>						
Service revenues	\$	\$	\$ 916,179	\$	\$	\$ 916,179
Equipment revenues		9,300	168,292			177,592
Total revenues		9,300	1,084,471			1,093,771
<b>OPERATING EXPENSES:</b>						
Cost of service (excluding depreciation and amortization expense shown separately below)			308,546	4,964		313,510
Cost of equipment		9,022	321,876			330,898
Selling, general and administrative expenses (excluding depreciation and amortization expense shown separately below)		278	160,850	10,793		171,921
Depreciation and amortization			96,187			96,187
Loss on disposal of assets			10,763			10,763
Total operating expenses		9,300	898,222	15,757		923,279
Income from operations			186,249	(15,757)		170,492
<b>OTHER EXPENSE (INCOME):</b>						
Interest expense	6,820	71,638	(5,481)	22,997	(28,566)	67,408
Earnings from consolidated subsidiaries	(76,073)	(154,450)			230,523	
Accretion of put option in majority-owned subsidiary					564	564
Interest income	(1,936)	(40,505)	(678)	(553)	28,566	(15,106)
Gain on extinguishment of debt			(244)			(244)
Total other expense	(71,189)	(123,317)	(6,403)	22,444	231,087	52,622
Income before provision for income taxes	71,189	123,317	192,652	(38,201)	(231,087)	117,870
Provision for income taxes		(47,245)				(47,245)
Net income (loss)	\$ 71,189	\$ 76,072	\$ 192,652	\$ (38,201)	\$ (231,087)	\$ 70,625

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Consolidated Statement of Income  
Nine Months Ended September 30, 2005

	Parent	Issuer	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
(in thousands)						
<b>REVENUES:</b>						
Service revenues	\$	\$	\$ 631,209	\$	\$	\$ 631,209
Equipment revenues		897	118,093			118,990
Total revenues		897	749,302			750,199
<b>OPERATING EXPENSES:</b>						
Cost of service (excluding depreciation and amortization expense shown separately below)			201,940			201,940
Cost of equipment		829	209,700			210,529
Selling, general and administrative expenses (excluding depreciation and amortization expense shown separately below)	234	3,207	112,388	377		116,206
Depreciation and amortization		120	61,775			61,895
Gain on disposal of assets			(218,292)			(218,292)
Total operating expenses	234	4,156	367,511	377		372,278
Income from operations	(234)	(3,259)	381,791	(377)		377,921
<b>OTHER EXPENSE (INCOME):</b>						
Interest expense		40,537	331	17,905	(17,906)	40,867
Earnings from consolidated subsidiaries	(180,149)	(361,389)			541,538	
Accretion of put option in majority-owned subsidiary					187	187
Interest income	(107)	(22,604)		(71)	17,906	(4,876)
Loss on extinguishment of debt		44,589	1,859			46,448
Total other expense	(180,256)	(298,867)	2,190	17,834	541,725	82,626
Income before provision for income taxes	180,022	295,608	379,601	(18,211)	(541,725)	295,295
Provision for income taxes		(115,460)				(115,460)
Net income (loss)	\$ 180,022	\$ 180,148	\$ 379,601	\$ (18,211)	\$ (541,725)	\$ 179,835

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Consolidated Statement of Cash Flows  
Nine Months Ended September 30, 2006

	Parent	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
(in thousands)						
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>						
Net income (loss)	\$ 71,189	\$ 76,072	\$ 192,652	\$ (38,201)	\$ (231,087)	\$ 70,625
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:						
Depreciation and amortization			96,187			96,187
Provision for uncollectible accounts receivable		64				64
Deferred rent expense			5,233	132		5,365
Cost of abandoned cell sites			702	1,367		2,069
Non-cash interest expense	2,505	724	473	28,566	(28,566)	3,702
Loss on disposal of assets			10,763			10,763
Gain on extinguishment of debt			(244)			(244)
Gain on sale of investments	(611)	(1,264)				(1,875)
Accretion of asset retirement obligation			464	5		469
Accretion of put option in majority-owned subsidiary					564	564
Deferred income taxes	(650)	42,442				41,792
Stock-based compensation expense			7,750			7,750
Changes in assets and liabilities	(47,568)	(307,695)	98,019	17,567	287,134	47,457
Net cash provided by (used in) operating activities	24,865	(189,657)	411,999	9,436	28,045	284,688
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>						
Purchases of property and equipment		(2,700)	(414,320)	(36,844)		(453,864)
Change in prepaid purchases of property and equipment			2,427			2,427
Proceeds from sale of property and equipment			2,548			2,548
Purchase of investments	(280,971)	(456,117)				(737,088)
Proceeds from sale of investments	268,079	632,110				900,189
Change in restricted cash and investments	(834)	(2,416)	9	(50)		(3,291)
Purchases of FCC licenses			(176)			(176)
Deposit to FCC for licenses	(200,000)					(200,000)
Net cash (used in) provided by investing activities	(213,726)	170,877	(409,512)	(36,894)		(489,255)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>						
Change in book overdraft		22,993				22,993
Proceeds from bridge credit agreements	200,000					200,000
Proceeds from long-term note to parent				30,045	(30,045)	
Debt issuance costs	(15,313)					(15,313)
Repayment of debt			(2,446)			(2,446)
Proceeds from minority interest in majority-owned subsidiary					2,000	2,000
Proceeds from exercise of stock options and warrants	889					889
Net cash provided by (used in) financing activities	185,576	22,993	(2,446)	30,045	(28,045)	208,123



Consolidated Statement of Cash Flows  
 Nine Months Ended September 30, 2006

(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(3,285)	4,213	41	2,587	3,556
CASH AND CASH EQUIVALENTS, beginning of period	10,623	95,772	219	6,095	112,709
CASH AND CASH EQUIVALENTS, end of period	\$ 7,338	\$ 99,985	\$ 260	\$ 8,682	\$ 116,265

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Consolidated Statement of Cash Flows  
Nine Months Ended September 30, 2005

	Parent	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
(in thousands)						
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>						
Net income	\$ 180,022	\$ 180,148	\$ 379,601	\$ (18,211)	\$ (541,725)	\$ 179,835
Adjustments to reconcile net income to net cash provided by operating activities:						
Depreciation and amortization		120	61,775			61,895
Provision for uncollectible accounts receivable		(38)				(38)
Deferred rent expense		(71)	3,162			3,091
Cost of abandoned cell sites			251			251
Non-cash interest expense	(107)	3,271	603	17,905	(17,906)	3,766
Gain on disposal of assets			(218,292)			(218,292)
Loss on extinguishment of debt		44,589	1,859			46,448
Loss on sale of investments		49				49
Accretion of asset retirement obligation		1	102			103
Accretion of put option in majority-owned subsidiary					187	187
Deferred income taxes		113,580				113,580
Stock-based compensation expense			3,302			3,302
Changes in assets and liabilities	(177,242)	(619,680)	14,965	86	834,709	52,838
Net cash provided by operating activities	2,673	(278,031)	247,328	(220)	275,265	247,015
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>						
Purchases of property and equipment			(204,300)	(150)		(204,450)
Change in prepaid purchases of property and equipment			(4,336)			(4,336)
Proceeds from sale of property and equipment			123			123
Purchase of investments		(427,732)				(427,732)
Proceeds from sale of investments		171,725				171,725
Change in restricted cash and investments	(50,000)	(524)	14			(50,510)
Purchases of FCC licenses			(235,330)			(235,330)
Deposit to FCC for licenses				(268,599)		(268,599)
Proceeds from sale of FCC licenses			230,000			230,000
Net cash used in investing activities	(50,000)	(256,531)	(213,829)	(268,749)		(789,109)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>						
Change in book overdraft		11,105				11,105
Proceeds from bridge credit agreements		540,000				540,000
Proceeds from Credit Agreements		750,000				750,000
Proceeds from long-term note to parent				275,265	(275,265)	
Payment upon execution of cash flow hedging derivative		(1,899)				(1,899)
Debt issuance costs		(28,801)				(28,801)
Repayment of debt		(719,671)	(33,409)			(753,080)
Proceeds from issuance of preferred stock, net of issuance costs	46,688					46,688
Proceeds from exercise of stock options and warrants	764					764
Net cash provided by (used in) financing activities	47,452	550,734	(33,409)	275,265	(275,265)	564,777

**Consolidated Statement of Cash Flows**  
**Nine Months Ended September 30, 2005**

<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>	125	16,172	90	6,296	22,683
<b>CASH AND CASH EQUIVALENTS, beginning of period</b>	1	22,349	127		22,477
<b>CASH AND CASH EQUIVALENTS, end of period</b>	\$ 126	\$ 38,521	\$ 217	\$ 6,296	\$ 45,160

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**16. Recent Accounting Pronouncements:**

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 the financial condition or results of operations of the Company.

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 the financial condition or results of operations of the Company.

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. The Company has not completed its 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. The Company is required to adopt this interpretation by December 31, 2006. The adoption of this statement is not expected to have a material effect on the financial condition or results of operations of the Company.

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. The Company will be required to adopt SFAS No. 157 in the first quarter of fiscal year 2008. The Company has not completed its evaluation of the effect of SFAS No. 157.

**17. Subsequent Events:**

***\$1.25 Billion Exchangeable Senior Secured Credit Agreement***

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 available 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, the Company recorded a loss on extinguishment of debt of approximately \$7.0 million.

***\$250 Million Exchangeable Senior Unsecured Credit Agreement***

In October 2006, MetroPCS IV, Inc. ("MetroPCS IV") entered into an additional exchangeable senior unsecured credit agreement ("Unsecured Bridge Credit Facility"). The aggregate credit commitments available under the Unsecured Bridge Credit Facility totaled \$250.0 million. On October 18, 2006, the lenders funded the \$250.0 million available under the Unsecured Bridge Credit Facility.

On November 3, 2006, MetroPCS IV 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, the Company recorded a loss on extinguishment of debt of approximately \$2.4 million.

***Auction 66***

On October 18, 2006, the Company paid the FCC the remaining \$1.2 billion for the purchase of the Auction 66 licenses on which the Company had been announced as the high bidder. On November 29, 2006, the FCC awarded the Auction 66 licenses to the Company.

***Orlando Market Launch***

The Company launched service in the Orlando metropolitan area and certain portions of Northern Florida on November 1, 2006.

***\$1.0 Billion 9<sup>1</sup>/<sub>4</sub>% Senior Notes***

On November 3, 2006, Wireless completed the sale of the 9<sup>1</sup>/<sub>4</sub>% Senior Notes. The 9<sup>1</sup>/<sub>4</sub>% 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 or its subsidiaries. Interest is payable on the 9<sup>1</sup>/<sub>4</sub>% Senior Notes on May 1 and November 1 of each year, beginning with

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May 1, 2007. Wireless may, at its option, redeem some or all of the 9<sup>1</sup>/<sub>4</sub>% Senior Notes at any time on or after November 1, 2010 for the redemption prices set forth in the indenture governing the 9<sup>1</sup>/<sub>4</sub>% Senior Notes. In addition, Wireless may also redeem up to 35% of the aggregate principal amount of the 9<sup>1</sup>/<sub>4</sub>% Senior Notes with the net cash proceeds of certain sales of equity securities. The net proceeds of the offering were approximately \$979.5 million after underwriter fees and other debt issuance costs of \$20.5 million. The net proceeds from the sale of the 9<sup>1</sup>/<sub>4</sub>% Senior Notes, together with the borrowings under the Senior Secured Credit Facility, were used to repay amounts owed under the Credit Agreements, Secured Bridge Credit Facility and Unsecured Bridge Credit Facility, and to pay related premiums, fees and expenses, as well as for general corporate purposes.

### *Senior Secured Credit Facility*

On November 3, 2006, Wireless entered into the Senior Secured Credit Facility, pursuant to which Wireless may borrow up to \$1.7 billion. The Senior Secured Credit Facility consists of a \$1.6 billion term loan facility and a \$100.0 million revolving credit facility. The term loan facility will be 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 seven years and the revolving credit facility will mature in five years. On November 3, 2006, Wireless borrowed \$1.6 billion under the Senior Secured Credit Facility. The net proceeds from the borrowings under the Senior Secured Credit Facility, together with the sale of the 9<sup>1</sup>/<sub>4</sub>% Senior Notes, were used to repay amounts owed under the Credit Agreements, Secured Bridge Credit Facility and Unsecured Bridge Credit Facility, and to pay related premiums, fees and expenses, as well as for general corporate purposes.

The facilities under the Senior Secured Credit Agreement 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 or its subsidiaries, but Wireless pledged the promissory note that Royal Street had given it in connection with amounts borrowed by Royal Street from Wireless and the limited liability company member interest held 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 Wireless as well as substantially all of Wireless' present and future assets and each of its direct and indirect present and future wholly-owned subsidiaries (except as prohibited by law and certain permitted exceptions).

### *First and Second Lien Credit Agreements*

On November 3, 2006, Wireless paid the lenders under the Credit Agreements \$931.5 million, which included a premium of approximately \$31.5 million, plus accrued interest of \$8.6 million to extinguish the aggregate outstanding principal balance under the First and Second Lien Credit Agreements. As a result, Wireless recorded a loss on extinguishment of debt in the amount of approximately \$42.7 million.

### *Restructuring*

On November 3, 2006, in connection with the closing of the sale of the Notes, the entry into the Senior Secured Credit Facility and the repayment of all amounts outstanding under the First and Second Lien Credit Agreements, the Secured Bridge Credit Facility and the Unsecured Bridge Credit

Facility, the Company consummated a restructuring transaction. As a result of the restructuring transaction, Wireless became a wholly-owned direct subsidiary of MetroPCS, Inc. (formerly MetroPCS V, Inc.), which is a wholly-owned direct subsidiary of MetroPCS. MetroPCS and MetroPCS, Inc., along with each of Wireless' wholly-owned subsidiaries (which excludes Royal Street), guarantee the 9<sup>1</sup>/<sub>4</sub>% Senior Notes and the obligations under the Senior Secured Credit Facility. MetroPCS, Inc. pledged the capital stock of Wireless as security for the obligations under the Senior Secured Credit Facility. All of the Company's PCS licenses and AWS licenses and the Company's interest in Royal Street are held by Wireless and its wholly-owned subsidiaries.

***Interest Rate Protection Agreement***

On November 21, 2006, Wireless entered into a three-year interest rate protection agreement to manage the Company's interest rate risk exposure and fulfill a requirement of Wireless' 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 Wireless' 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.

***Termination of Interest Rate Cap Agreement***

On November 21, 2006, Wireless terminated its interest rate cap agreement that was required by Wireless' Credit Agreements. Wireless received approximately \$4.3 million upon termination of the agreement. The proceeds from the termination of the agreement approximated its carrying value.

Shares

**MetroPCS Communications, Inc.**

**Common Stock**

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**PROSPECTUS**  
**, 2007**

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**Joint Book-Running Managers**

**Bear, Stearns & Co. Inc.**  
**Banc of America Securities LLC**  
**Merrill Lynch & Co.**  
**Morgan Stanley**

Until \_\_\_\_\_, 2007 (25 days after the commencement of this offering), all dealers that effect transactions in our common stock, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to the dealers' obligation to deliver a prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.

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**PART II**

**INFORMATION NOT REQUIRED IN PROSPECTUS**

**Item 13. Other Expenses of Issuance and Distribution.**

Set forth below are the expenses (other than underwriting discounts and commissions) expected to be incurred in connection with the issuance and distribution of the securities registered hereby. With the exception of the Securities and Exchange Commission registration fee, the National Association of Securities Dealers, Inc. filing fee and the listing fee, the amounts set forth below are estimates.

SEC registration fee	\$ 1,125,000
National Association of Securities Dealers, Inc. filing fee	\$ 75,500
listing fee	*
Legal fees and expenses	*
Blue sky fees and expenses	*
Accounting fees and expenses	*
Printing expenses	*
Transfer agent fees and expenses	*
Miscellaneous	*
	<hr/>
Total	\$ <hr/>

\*  
To be filed by amendment.

**Item 14. Indemnification of Officers and Directors.**

Section 145 of the Delaware General Corporation Law permits a Delaware corporation to indemnify any person who was or is a party or witness or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of the corporation) by reason of the fact that he or she is or was a director, officer, employee or agent of the corporation or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation or enterprise. Depending on the character of the proceeding, a corporation may indemnify against expenses, costs and fees (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred in connection with such action, suit or proceeding if the person indemnified acted in good faith and in a manner he or she reasonably believed to be in or not opposed to the best interests of the corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his or her conduct was unlawful. If the person indemnified is not wholly successful in such action, suit or proceeding, but is successful, on the merits or otherwise, in one or more but less than all claims, issues or matters in such proceeding, he or she may be indemnified against expenses actually and reasonably incurred in connection with each successfully resolved claim, issue or matter. In the case of an action or suit by or in the right of the corporation, no indemnification may be made in respect to any claim, issue or matter as to which such person shall have been adjudged to be liable to the corporation unless and only to the extent that the Court of Chancery of the State of Delaware, or the court in which such action or suit was brought, shall determine that, despite the adjudication of liability, such person is fairly and reasonably entitled to indemnity for such expenses which the court shall deem proper. Section 145 provides that, to the extent a director, officer, employee or agent of a corporation has been successful in the defense of any action, suit or proceeding referred to above or in the defense of any claim, issue or manner therein, he or she shall be indemnified against expenses (including attorneys' fees) actually and reasonably incurred by him or her in connection therewith.

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Our certificate of incorporation provides that we shall indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding whether civil, criminal, administrative or investigative (other than an action by or in the right of our company) by reason of the fact that he or she is or was our director, officer, employee or agent, or is or was serving at our request as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by him or her in connection with such action, suit or proceeding if he or she acted in good faith and in a manner he or she reasonably believed to be in, or not opposed to, our best interests, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his or her conduct was unlawful.

Our certificate of incorporation also provides that we shall indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of our company to procure a judgment in its favor by reason of the fact that he or she is or was our director, officer, employee or agent, or is or was serving at our request as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise against expenses (including attorneys' fees) actually and reasonably incurred by him or her in connection with the defense or settlement of such action or suit if he or she acted in good faith and in a manner he or she reasonably believed to be in, or not opposed to, our best interests and except that no indemnification shall be made in respect of any claim, issue or matter as to which such person shall have been adjudged to be liable to our company unless and only to the extent that the Court of Chancery of the State of Delaware or the court in which such action or suit was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses which the Court of Chancery or such other court shall deem proper.

Expenses (including attorneys' fees) incurred by an officer or director in defending any civil, criminal, administrative or investigative action, suit or proceeding may be paid by us in advance of the final disposition of such action, suit or proceeding upon receipt of an undertaking by or on behalf of such director or officer to repay such amount if it shall ultimately be determined that he or she is not entitled to be indemnified by us as authorized in our certificate of incorporation. Such expenses (including attorneys' fees) incurred by other employees and agents may be so paid upon such terms and conditions, if any, as our board of directors deems appropriate.

The indemnification and advancement of expenses described above:

shall not be deemed exclusive of any other rights to which those seeking indemnification or advancement of expenses may be entitled under any law, bylaw, agreement, vote of stockholders or disinterested directors or otherwise, both as to action in an official capacity and as to action in another capacity while holding such office;

shall, unless otherwise provided when authorized or ratified, continue as to a person who has ceased to be a director, officer, employee or agent; and

shall inure to the benefit of the heirs, executors and administrators of such a person.

Our certificate of incorporation also provides that our directors shall not be personally liable to us or our stockholders for monetary damages for breach of fiduciary duty as a director, except for liability:

for any breach of the director's duty of loyalty to us or our stockholders;

for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law;

under Section 174 of the Delaware General Corporation Law; or

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for any transaction from which the director derived any improper personal benefit.

Any repeal or modification of the provisions of our certificate of incorporation governing indemnification or limitation of liability shall be prospective only, and shall not adversely affect:

any rights or obligations then existing with respect to any state of facts then or theretofore existing or any action, suit or proceeding theretofore or thereafter brought based in whole or in part upon any such state of facts; or

any limitation on the personal liability of a director existing at the time of such repeal or modification.

We have also entered into separate indemnification agreements with each of our directors and executive officers under which we have agreed to indemnify, and to advance expenses to, each director and executive officer to the fullest extent permitted by applicable law with respect to liabilities they may incur in their capacities as directors and officers.

We maintain director and officer liability insurance to insure each person who was, is, or will be our director or officer against specified losses and wrongful acts of such director or officer in his or her capacity as such, including breaches of duty and trust, neglect, error and misstatement. In accordance with the director and officer insurance policy, each insured party will be entitled to receive advances of specified defense costs.

### **ITEM 15. Recent Sales of Unregistered Securities**

Set forth below is a listing of all sales of securities by MetroPCS Communications and its wholly-owned and majority-owned subsidiaries during the past three years not registered under the Securities Act:

*Series E Convertible Preferred Stock.* In September 2005, MetroPCS Communications, Inc. issued 500,000 shares of Series E Preferred Stock, par value \$0.0001 per share, of MetroPCS Communications, Inc., to Madison Dearborn Capital Partners and TA Associates for an aggregate sales price of \$50,000,000 pursuant to a Stock Purchase Agreement, dated August 30, 2005, or Series E Purchase Agreement. This transaction was undertaken in reliance upon the accredited investors' exemption from registration afforded by Rule 506 of Regulation D, or Rule 506, of the Securities Act. We believe that other exemptions may also exist for this transaction. Each share of Series E Preferred Stock accrues dividends from the date of issuance at a rate of 6% per year on the liquidation value of \$100 per share. Each share of Series E Preferred Stock will be converted into common stock upon (i) the completion of a Qualifying Public Offering, (as defined in the Second Amended and Restated Stockholders Agreement), (ii) the common stock trading (or, in the case of a merger or consolidation of MetroPCS Communications, Inc. with another company, other than as a sale or change of control of MetroPCS Communications, Inc., the shares received in such merger or consolidation having traded immediately prior to such merger or consolidation) on a national securities exchange for a period of 30 consecutive trading days above a price implying a market valuation of the Series D Preferred Stock over twice the Series D Preferred Stock initial purchase price, or (iii) the date specified by the holders of 66<sup>2</sup>/<sub>3</sub>% of the Series E Preferred Stock. The Series E Preferred Stock is convertible into common stock at \$27.00 per share, which per share amount is subject to adjustment in accordance with the terms of the Second Amended and Restated Certificate of Incorporation of MetroPCS Communications, Inc. If not previously converted, MetroPCS Communications, Inc. is required to redeem all outstanding shares of Series E Preferred Stock on July 17, 2015, at the liquidation preference of \$100 per share plus accrued but unpaid dividends.

*Series D Convertible Preferred Stock.* Between July 2000 and January 2004, MetroPCS, Inc. issued 3,500,993 shares of Series D Preferred Stock, par value \$0.0001 per share, of MetroPCS, Inc., or MetroPCS Series D Preferred Stock, in multiple closings, for an aggregate sales price of \$350,099,300.

These transactions relied on the accredited investors' exemption from registration requirements afforded by Rule 506. We believe that other exemptions may also exist for these transactions. In 2004, each share of MetroPCS Series D Preferred Stock was converted into Series D Preferred Stock. The conversion was exempt from registration under Section 4(2) of the Securities Act as a transaction by an issuer not involving any public offering. Each share of Series D Preferred Stock will be converted into common stock upon (i) the completion of a Qualifying Public Offering, (as defined in the Second Amended and Restated Stockholders Agreement), (ii) the common stock trades (or, in the case of a merger or consolidation of MetroPCS Communications, Inc. with another company, other than as a sale or change of control of MetroPCS Communications, Inc., the shares received in such merger or consolidation having traded immediately prior to such merger or consolidation) on a national securities exchange for a period of 30 consecutive trading days above a price that implies a market valuation of the Series D Preferred Stock in excess of twice the initial purchase price of the Series D Preferred Stock, or (iii) the date specified by the holders of  $66\frac{2}{3}\%$  of the Series D Preferred Stock. The Series D Preferred Stock is convertible into common stock at \$9.40 per share, which per share amount is subject to adjustment under the terms of the Second Amended and Restated Certificate of Incorporation of MetroPCS Communications, Inc. If not previously converted, MetroPCS Communications, Inc. is required to redeem all outstanding shares of Series D Preferred Stock on July 17, 2015, at the liquidation preference of \$100 per share plus accrued but unpaid dividends.

*MetroPCS Restructuring Transaction.* In connection with its formation, MetroPCS Communications, Inc. issued 100 shares of its common stock to MetroPCS, Inc. on March 10, 2004 for an aggregate purchase price of \$1,000. The transaction was deemed exempt from Securities Act registration under Section 4(2) of the Securities Act as a transaction by an issuer not involving any public offering. In April 2004, each share of Class B non-voting common stock in MetroPCS, Inc. (and each option and warrant related thereto) was converted into one share of Class C common stock (as an option or warrant to purchase Class C common stock) in MetroPCS, Inc. Concurrent with the conversion, MetroPCS, Inc. increased the number of Class C common stock shares to 300,000,000 and decreased the authorized number of Class B common stock shares to zero. In April 2004, in connection with the abandoned initial public offering, MetroPCS, Inc., MetroPCS Communications, Inc., and MPCS Holdco Merger Sub, Inc., a wholly-owned subsidiary of MetroPCS Communications, Inc. ("Merger Sub"), entered into an Agreement and Plan of Merger in which Merger Sub and MetroPCS, Inc. agreed to merge with MetroPCS, Inc. as the surviving corporation. On the effective date of the merger, which was in July 2004, each share of Class A common stock of MetroPCS, Inc., par value \$0.0001 per share, was automatically converted into one share of Class A common stock, par value \$0.0001 per share, of MetroPCS Communications, Inc.; each share of Class C common stock of MetroPCS, Inc., par value \$0.0001 per share, (including each share of Class B non-voting common stock of MetroPCS, Inc. that was converted into Class C common stock of MetroPCS, Inc. in April 2004) was automatically converted into one share of Class C common stock, par value \$0.0001 per share, of MetroPCS Communications, Inc.; and each share of Series D Preferred Stock of MetroPCS, Inc. was automatically converted into one share of Series D Preferred Stock of MetroPCS Communications, Inc. In addition, each option to purchase MetroPCS, Inc. Class C common stock (including each option to purchase MetroPCS, Inc. Class B non-voting common stock that was converted into an option to purchase MetroPCS, Inc. Class C common stock in April 2004) was assumed by MetroPCS Communications, Inc., and if and when exercisable, shall be exercised for common stock, par value \$0.0001 per share, in MetroPCS Communications, Inc. Further, each warrant outstanding to obtain Class C common stock (including each warrant to purchase MetroPCS, Inc. Class B non-voting common stock that was converted into a warrant to purchase MetroPCS, Inc. Class C common stock) in MetroPCS, Inc. was assumed by MetroPCS Communications, Inc. and, if and when exercisable, shall be exercised for the same class of common stock in MetroPCS Communications, Inc. On July 23, 2004 the Class C common stock of MetroPCS Communications, Inc.

was renamed Common Stock. These transactions are exempt from registration under Section 4(2) of the Securities Act as a transaction by an issuer not involving any public offering.

*Exchange of Common Stock.* When MetroPCS, Inc. emerged from bankruptcy in October 1998, its Fifth Amended and Restated Certificate of Incorporation included a provision prohibiting the issuance of non-voting equity securities pursuant to our bankruptcy plan of reorganization and Section 1123(a)(6) of the Bankruptcy Code. After its emergence from bankruptcy, MetroPCS, Inc. issued shares of Class B non-voting common stock, which had been authorized by its certificate of incorporation in effect prior to the bankruptcy filing. The Class B common stock had no voting rights except as required by law. MetroPCS, Inc.'s board of directors has indicated that the continued inclusion of the prohibition on the issuance of non-voting equity securities after MetroPCS, Inc.'s emergence from bankruptcy was a mistake, and on August 30, 2005, MetroPCS, Inc. filed a certificate of correction to remove this prohibition. In addition, MetroPCS, Inc.'s Seventh Amended and Restated Certificate of Incorporation retroactively rescinds any prohibition on the issuance of the non-voting equity securities and ratifies the authorization and issuance of the Class B common stock by MetroPCS, Inc.

In April 2004, all of the shares of Class B non-voting common stock, par value \$0.0001 per share, of MetroPCS, Inc., or Class B Common Stock, converted into shares of Class C Common Stock of MetroPCS, Inc. In order to resolve any uncertainty regarding the validity of the common stock ultimately received in the conversion of Class B Common Stock, MetroPCS Communications, Inc. entered into an exchange agreement with Madison Dearborn Capital Partners and TA Associates in August 2005 to exchange all the common stock, which had been issued in connection with the conversion of Class B Common Stock, that Madison Dearborn Capital Partners and TA Associates acquired as a result of their recent offer to purchase, along with all claims relating to the possible invalidity of the issuance of the Class B Common Stock for an equivalent number of shares of MetroPCS Communications, Inc. common stock. In addition, in December 2005, we initiated an offer to exchange any remaining MetroPCS Communications, Inc. common stock ultimately received in connection with the conversion of Class B Common Stock, along with any claims relating to the possible invalidity of the issuance of the Class B Common Stock, for an equivalent number of shares of MetroPCS Communications, Inc. common stock. As a result, all shares of MetroPCS Communications, Inc. common stock which were ultimately received in connection with the conversion of Class B Common Stock, along with all claims relating to the possible invalidity of the issuance of the Class B Common Stock, have been exchanged for new shares of MetroPCS Communications, Inc. common stock. The transaction is exempt from Securities Act registration under Section 4(2) of the Securities Act as a transaction by an issuer not involving any public offering.

*Equity Incentive Plans.* Since January 1, 2004 through September 30, 2006, our employees have purchased 7,871,258 shares of MetroPCS Communications, Inc. common stock through the exercise of outstanding options under the 1995 Plan for an aggregate sales price of approximately \$9.8 million. Since January 1, 2004 through September 30, 2006, our employees have purchased 2,532 shares of MetroPCS Communications, Inc. common stock through the exercise of outstanding options under our 2004 Equity Incentive Compensation Plan, as amended, or the 2004 Plan, for an aggregate sales price of approximately \$0.1 million. These transactions were undertaken in reliance upon exemptions from Securities Act registration requirements afforded by Rule 701, Rule 506 and Section 4(2) of the Securities Act, except that we have determined that the issuance of options to purchase 655,055 shares of MetroPCS Communications, Inc. common stock under the 1995 Plan and 2004 Plan since January 1, 2004 may not have been exempt from registration or qualification requirements under federal or state securities laws. Consequently, certain of these options and shares of MetroPCS Communications, Inc. common stock may have been issued in violation of federal or state securities laws and may be subject to rescission. We intend to make a rescission offer as soon as practicable after the effective date of this offering to holders of any outstanding options and shares subject to rescission. If the rescission offer is

accepted by all offerees, we could be required to make an aggregate payment of up to approximately \$2.6 million.

*Director Remuneration Plan.* Non-employee members of our board of directors are eligible to participate in our non-employee director remuneration plan under which such directors may receive compensation for serving on the board of directors. This compensation includes annual retainers, board meeting fees, committee paid event fees, initial stock grants and annual stock grants. Non-employee directors are eligible to receive an initial grant of 40,000 options to purchase MetroPCS Communications, Inc. common stock plus an additional 10,000 or 3,000 options to purchase MetroPCS Communications, Inc. common stock if the member serves as the chairman of the audit committee or any of the other committees, respectively. Non-employee directors are also eligible to receive an annual grant of 10,000 options to purchase MetroPCS Communications, Inc. common stock plus an additional 5,000 or 2,000 options to purchase MetroPCS Communications, Inc. common stock if the member serves as the chairman of the audit committee or the other committees, respectively. In addition, non-employee directors may elect to receive their annual retainer in the form of MetroPCS Communications, Inc. common stock. If such election is made, the non-employee director is eligible to receive the number of shares of MetroPCS Communications, Inc. common stock that is equal to (a) the portion of the annual retainer received in MetroPCS Communications, Inc. common stock divided by the fair market value of the MetroPCS Communications, Inc. common stock at the time the annual retainer is paid (b) times three. Since the inception of the plan, non-employee directors have been granted 325,365 options to purchase MetroPCS Communications, Inc. common stock and 4,660 of those options have been exercised. Shares of MetroPCS Communications, Inc. common stock granted under the non-employee director remuneration plan were granted in reliance upon Rule 506 of the Securities Act and options were granted in reliance upon Rule 701 and/or Rule 506 of the Securities Act. We believe other exemptions may also be available.

**ITEM 16. Exhibits and Financial Statement Schedules**

(A)

Exhibits:

Exhibit No.	Description
1.1**	Form of Underwriting Agreement.
2.1(a)*	Agreement and Plan of Merger, dated as of April 6, 2004, by and among MetroPCS Communications, Inc., MPCS Holdco Merger Sub, Inc. and MetroPCS, Inc.
2.1(b)*	Agreement and Plan of Merger, dated as of November 3, 2006, by and among MetroPCS Wireless, Inc., MetroPCS IV, Inc., MetroPCS III, Inc., MetroPCS II, Inc. and MetroPCS, Inc.
3.1**	Form of Third Amended and Restated Certificate of Incorporation of MetroPCS Communications, Inc. to be filed upon the closing of this offering.
3.2**	Form of Third Amended and Restated Bylaws of MetroPCS Communications, Inc. to be effective upon the closing of this offering.
4.1**	Form of Certificate of MetroPCS Communications, Inc. Common Stock.
5.1**	Opinion of Baker Botts L.L.P.
10.1(a)*	MetroPCS Communications, Inc. 2004 Equity Incentive Compensation Plan.
10.1(b)*	First Amendment to the MetroPCS Communications, Inc. 2004 Equity Incentive Compensation Plan, effective September 21, 2005.
10.1(c)*	Second Amendment to the MetroPCS Communications, Inc. 2004 Equity Incentive Compensation Plan, effective December 6, 2006.
10.1(d)*	Second Amended and Restated 1995 Stock Option Plan of MetroPCS, Inc.
10.1(e)*	Amendment to the Second Amended and Restated 1995 Stock Option Plan of MetroPCS, Inc.
10.1(f)*	Second Amendment to the Second Amended and Restated 1995 Stock Option Plan of MetroPCS, Inc.
10.2**	Form of Registration Rights Agreement to become effective upon the closing of this offering.
10.3**	Employment Agreement, dated as of March 31, 2005, by and between MetroPCS Communications, Inc. and J. Braxton Carter.
10.4**	Form of Officer and Director Indemnification Agreement.
10.5(a)**	General Purchase Agreement, effective as of June 6, 2005, by and between MetroPCS Wireless and Lucent Technologies Inc.
10.5(b)**	Amendment No. 1 to the General Purchase Agreement, effective as of September 30, 2005, by and between MetroPCS Wireless and Lucent Technologies Inc.
10.5(c)**	Amendment No. 2 to the General Purchase Agreement, effective as of November 10, 2005, by and between MetroPCS Wireless and Lucent Technologies Inc.
10.6**	Amended and Restated Services Agreement, executed on December 15, 2005 as of November 24, 2004, by and between Royal Street and MetroPCS Wireless, Inc., including all amendments and waivers thereto.

**Exhibit No.**

**Description**

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- 10.7\*\* Second Amended and Restated Credit Agreement, executed on December 15, 2005 as of December 22, 2004, by and among MetroPCS Wireless, Inc. and Royal Street Communications, LLC, including all amendments and waivers thereto.
- 10.8\*\* Amended and Restated Pledge Agreement, executed on December 15, 2005 as of December 22, 2004, by and between Royal Street and MetroPCS Wireless, Inc., including all amendments and waivers thereto.
- 10.9\*\* Amended and Restated Security Agreement, executed on December 15, 2005 as of December 22, 2004, by and between Royal Street and MetroPCS Wireless, Inc., including all amendments and waivers thereto.
- 10.10\*\* Amended and Restated Limited Liability Company Agreement of Royal Street, executed on December 15, 2005 as of November 24, 2004 by and between C9 Wireless, LLC, GWI PCS1, Inc., and MetroPCS Wireless, Inc., including all amendments and waivers thereto.
- 10.11\*\* Master Equipment and Facilities Lease Agreement, executed as of May 17, 2006, by and between Royal Street and MetroPCS Wireless, Inc., including all amendments and waivers thereto.
- 10.12\*\* Credit Agreement, dated as of November 3, 2006, among MetroPCS Wireless, Inc., the several banks and other financial institutions or entities from time to time parties thereto, Bear, Stearns & Co. Inc., as sole lead arranger and joint book runner, Bear Stearns Corporate Lending Inc., as syndication agent, Merrill Lynch, Pierce, Fenner & Smith Incorporated, as joint book runner, Banc of America Securities LLC, as joint book runner, Bear Stearns Corporate Lending Inc., as administrative agent, and Bank of America, N.A., as issuing lender.
- 10.13\*\* Indenture, dated as of November 3, 2006, among MetroPCS Wireless, Inc., the Guarantors as defined therein and The Bank of New York, as trustee.
  - 16.1\* Letter regarding change in certifying accountant.
  - 21.1\* Subsidiaries of Registrant.
  - 23.1\* Consent of PricewaterhouseCoopers LLP
  - 23.2\* Consent of Deloitte & Touche LLP
  - 23.3\*\* Consent of Baker Botts L.L.P. (included in Exhibit 5.1)
  - 24.1\* Power of Attorney, pursuant to which amendments to this Form S-1 may be filed, is included on the signature page contained in Part II of this Form S-1.

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\*  
Filed herewith.

\*\*  
To be filed by amendment.

(B)  
Financial Statement Schedules:

Financial statement schedules are omitted because they are not required or the required information is shown in our consolidated financial statements or the notes thereto.

### ITEM 17. Undertakings

(a) The undersigned registrant hereby undertakes to provide to the underwriters at the closing specified in the underwriting agreement certificates in such denominations and registered in such names as required by the underwriters to permit prompt delivery to each purchaser.

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(b) Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission, such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

(c) The undersigned registrant hereby undertakes that:

(1) For purposes of determining any liability under the Securities Act, the information omitted from the form of prospectus filed as part of this Registration Statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this Registration Statement as of the time it was declared effective.

(2) For purposes of determining any liability under the Securities Act, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

**SIGNATURES**

Pursuant to the requirements of the Securities Act of 1933, the Registrant has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Dallas, State of Texas, on January 3, 2007.

**METROPCS COMMUNICATIONS, INC.**

By: /s/ ROGER D. LINQUIST

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Roger D. Linquist  
President and Chief Executive Officer and  
Chairman of the Board

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**POWER OF ATTORNEY**

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below hereby severally constitutes and appoints Roger D. Linquist his true and lawful attorney-in-fact and agent, each with the power of substitution and resubstitution, for him in any and all capacities, to sign any and all amendments to this Registration Statement on Form S-1 (and any additional registration statement related thereto permitted by Rule 462(b) promulgated under the Securities Act of 1933 (and all further amendments, including post-effective amendments thereto)), and to file the same, with accompanying exhibits and other related documents, with the Securities and Exchange Commission, and ratify and confirm all that said attorney-in-fact and agent, or his substitute or substitutes, may lawfully do or cause to be done by virtue of said appointment.

Pursuant to the requirements of the Securities Exchange Act of 1934, this registration statement has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

/s/ ROGER D. LINQUIST

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Roger D. Linquist  
President and Chief Executive Officer and Chairman of the Board  
(Principal Executive Officer)

/s/ CHRISTINE B. KORNEGAY

---

Christine B. Kornegay  
Vice President, Controller and Chief Accounting Officer  
(Principal Accounting Officer)

/s/ WALKER C. SIMMONS

---

Walker C. Simmons  
Director

/s/ JAMES F. WADE

---

James F. Wade  
Director

/s/ C. KEVIN LANDRY

---

C. Kevin Landry  
Director

/s/ J. BRAXTON CARTER

---

J. Braxton Carter  
Senior Vice President and Chief Financial Officer  
(Principal Financial Officer)

/s/ ARTHUR C. PATTERSON

---

Arthur C. Patterson  
Director

/s/ JOHN SCULLEY

---

John Sculley  
Director

/s/ W. MICHAEL BARNES

---

W. Michael Barnes  
Director

/s/ JAMES N. PERRY, JR.

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James N. Perry, Jr.  
Director

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- 10.8\*\* Amended and Restated Pledge Agreement, executed on December 15, 2005 as of December 22, 2004, by and between Royal Street and MetroPCS Wireless, Inc., including all amendments and waivers thereto.
- 10.9\*\* Amended and Restated Security Agreement, executed on December 15, 2005 as of December 22, 2004, by and between Royal Street and MetroPCS Wireless, Inc., including all amendments and waivers thereto.
- 10.10\*\* Amended and Restated Limited Liability Company Agreement of Royal Street, executed on December 15, 2005 as of November 24, 2004 by and between C9 Wireless, LLC, GWI PCS1, Inc., and MetroPCS Wireless, Inc., including all amendments and waivers thereto.
- 10.11\*\* Master Equipment and Facilities Lease Agreement, executed as of May 17, 2006, by and between Royal Street and MetroPCS Wireless, Inc., including all amendments and waivers thereto.
- 10.12\*\* Credit Agreement, dated as of November 3, 2006, among MetroPCS Wireless, Inc., the several banks and other financial institutions or entities from time to time parties thereto, Bear, Stearns & Co. Inc., as sole lead arranger and joint book runner, Bear Stearns Corporate Lending Inc., as syndication agent, Merrill Lynch, Pierce, Fenner & Smith Incorporated, as joint book runner, Banc of America Securities LLC, as joint book runner, Bear Stearns Corporate Lending Inc., as administrative agent, and Bank of America, N.A., as issuing lender.
- 10.13\*\* Indenture, dated as of November 3, 2006, among MetroPCS Wireless, Inc., the Guarantors as defined therein and The Bank of New York, as trustee.
- 16.1\* Letter regarding change in certifying accountant.
- 21.1\* Subsidiaries of Registrant.
- 23.1\* Consent of PricewaterhouseCoopers LLP
- 23.2\* Consent of Deloitte & Touche LLP
- 23.3\*\* Consent of Baker Botts L.L.P. (included in Exhibit 5.1)
- 24.1\* Power of Attorney, pursuant to which amendments to this Form S-1 may be filed, is included on the signature page contained in Part II of this Form S-1.

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\* Filed herewith.

\*\* To be filed by amendment.

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