T-Mobile US, Inc.
Form 10-Q
August 08, 2013

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

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2013
or
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission File Number: 1-33409
T-MOBILE US, INC.
(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

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

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

Class	Shares Outstanding as of July 31, 2013
Common Stock, $0.00001 par value per share	726,716,596

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

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

(in millions, except share and per share amounts)	6/30/2013	12/31/2012
Assets		
Current assets		
Cash and cash equivalents	$2,362	$394
Accounts receivable, net of allowances for uncollectible accounts of $322 and $289	3,000	2,678
Accounts receivable from affiliates	33	682
Inventory	819	457
Current portion of deferred tax assets, net	501	655
Other current assets	598	675
Total current assets	7,313	5,541
Property and equipment, net of accumulated depreciation of $18,787 and $17,744	15,185	12,807
Goodwill	1,683	—
Spectrum licenses	18,415	14,550
Other intangible assets, net of accumulated amortization of $313 and $243	1,390	79
Investments in unconsolidated affiliates	49	63
Long-term investments	38	31
Other assets	661	551
Total assets	$44,734	$33,622
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities	$4,305	$3,475
Current payables to affiliates	226	1,619
Short-term debt	210	—
Deferred revenue	459	290
Other current liabilities	198	208
Total current liabilities	5,398	5,592
Long-term payables to affiliates	11,200	13,655
Long-term debt	6,276	—
Long-term financial obligation	2,479	2,461
Deferred tax liabilities	4,386	3,618
Deferred rents	2,000	1,884
Other long-term liabilities	636	297
Total long-term liabilities	26,977	21,915
Commitments and contingencies		
Stockholders' equity		
Preferred stock, par value $0.00001 per share, 100,000,000 shares authorized; no shares issued and outstanding	—	—
Common stock, par value $0.00001 per share, 1,000,000,000 shares authorized; 727,401,814 and 535,286,077 shares issued, 726,019,309 and 535,286,077 shares outstanding	—	—
Additional paid-in capital	35,389	29,197

Treasury stock, at cost, 1,382,505 and 0 shares issued	—	—
Accumulated other comprehensive income	2	41
Accumulated deficit	(23,032)	(23,123)
Total stockholders' equity	12,359	6,115
Total liabilities and stockholders' equity	$44,734	$33,622

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions, except shares and per share amounts)	2013	2012	2013	2012
Revenues				
Branded postpaid revenues	$3,284	$3,713	$6,547	$7,534
Branded prepaid revenues	1,242	414	1,745	791
Wholesale revenues	143	143	293	273
Roaming and other service revenues	87	111	177	227
Total service revenues	4,756	4,381	8,762	8,825
Equipment sales	1,379	435	1,984	970
Other revenues	93	67	159	122
Total revenues	6,228	4,883	10,905	9,917
Operating expenses				
Network costs	1,327	1,178	2,436	2,374
Cost of equipment sales	1,936	745	2,822	1,590
Customer acquisition	1,028	751	1,765	1,500
General and administrative	819	871	1,588	1,841
Depreciation and amortization	888	819	1,643	1,566
MetroPCS transaction-related costs	26	—	39	—
Restructuring costs	23	48	54	54
Other, net	—	19	(2)	43
Total operating expenses	6,047	4,431	10,345	8,968
Operating income	181	452	560	949
Other income (expense)				
Interest expense to affiliates	(225)	(151)	(403)	(322)
Interest expense	(109)	—	(160)	—
Interest income	40	18	75	32
Other income, net	118	23	112	8
Total other expense, net	(176)	(110)	(376)	(282)
Income before income taxes	5	342	184	667
Income tax expense	21	135	93	260
Net income (loss)	$(16)	$207	$91	$407
Other comprehensive income (loss), net of tax				
Net gain (loss) on cross currency interest rate swaps, net of tax effect of $39, ($68), $13 and ($26)	66	(114)	23	(43)
Net gain (loss) on foreign currency translation, net of tax effect of ($62), $50, ($37) and $23	(104)	84	(62)	39
Unrealized gain (loss) on available-for-sale securities, net of tax effect of $0, $0, $0 and $0	—	(2)	—	(1)
Other comprehensive loss, net of tax	(38)	(32)	(39)	(5)
Total comprehensive income (loss)	$(54)	$175	$52	$402
Earnings (loss) per share				
Basic	$(0.02)	$0.39	$0.15	$0.76
Diluted	(0.02)	0.39	0.15	0.76
Weighted average shares outstanding				
Basic	664,603,682	535,286,077	600,302,111	535,286,077

Diluted	664,603,682	535,286,077	601,694,911	535,286,077

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

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

	Six Months Ended June 30,	
(in millions)	2013	2012
Operating activities		
Net cash provided by operating activities	$1,715	$1,909
Investing activities		
Purchases of property and equipment	(2,126)	(1,286)
Purchases of intangible assets	(51)	(10)
Short term affiliate loan receivable, net	300	(577)
Cash and cash equivalents acquired in MetroPCS business combination	2,144	—
Other, net	(5)	(4)
Net cash provided by (used in) investing activities	262	(1,877)
Financing activities		
Repayments related to a variable interest entity	(40)	—
Distribution to affiliate as a result of debt recapitalization	(41)	—
Proceeds from exercise of stock options	72	—
Excess tax benefit from stock-based compensation	3	—
Other, net	(3)	1
Net cash provided by (used in) financing activities	(9)	1
Change in cash and cash equivalents	1,968	33
Cash and cash equivalents		
Beginning of period	394	390
End of period	$2,362	$423

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

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

(in millions, except shares)	Shares Common Stock	Treasury Stock	Par Value and Additional Paid-in Capital	Accumulated Other Comprehensive Income	Accumulated Deficit	Total Stockholders' Equity
Balances as of December 31, 2012	535,286,077	—	$29,197	$ 41	$(23,123)	$6,115
Net income	—	—	—	—	91	91
Other comprehensive loss	—	—	—	(39)	—	(39)
Effects of debt recapitalization	—	—	3,143	—	—	3,143
MetroPCS shares converted upon reverse merger, net of treasury stock withheld for taxes	184,487,309	1,382,505	2,971	—	—	2,971
Stock-based compensation	—	—	6	—	—	6
Exercise of stock options	6,245,923	—	72	—	—	72
Balances as of June 30, 2013	726,019,309	1,382,505	$35,389	$ 2	$(23,032)	$12,359

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

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

1.Consolidation and Basis of Presentation

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

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

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

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

Segments

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

Cash and Cash Equivalents

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

Goodwill

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

Other Intangible Assets

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

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Stock-Based Compensation

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

Earnings (Loss) Per Share

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

2.Transaction with MetroPCS

Transaction Overview

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

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

Accordingly, the acquired assets and liabilities of MetroPCS are included in the Company's condensed consolidated balance sheet as of June 30, 2013 and the results of its operations and cash flows are included in the Company's condensed consolidated statement of comprehensive income and cash flows for the period from May 1, 2013 through June 30, 2013.

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

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

Acquisition Date.

Debt Recapitalization

In connection with the recapitalization of T-Mobile USA, certain outstanding balances with Deutsche Telekom were settled prior to the closing of the business combination. The debt recapitalization was accounted for as a debt extinguishment with the effects being treated as a capital transaction.

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The effects on additional paid-in capital as a result of the debt recapitalization are presented in the following table:

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

Reverse Stock Split

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

Consideration Transferred

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

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

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

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

Preliminary Purchase Price Allocation

As T-Mobile USA was the accounting acquirer in the business combination, it has allocated the preliminary purchase price to the MetroPCS individually identifiable assets acquired and liabilities assumed based on their estimated fair values on the

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Acquisition Date. The excess of the preliminary purchase price over those fair values was recorded as goodwill. The determination of the preliminary fair values of the acquired assets and assumed liabilities requires significant judgment, including estimates relating to the decommissioning of network cell sites, the determination of estimated lives of depreciable and intangible assets and the calculation of the value of spectrum licenses, customer lists, and trademarks. Accordingly, should additional information become available, the preliminary purchase price allocation is subject to further adjustment.

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

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

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

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

None of the goodwill is deductible for income tax purposes.

The Company recognized acquisition-related costs of $26 million and $39 million for the three and six months ended June 30, 2013, respectively. These costs are included in MetroPCS transaction-related costs in the condensed consolidated statements of comprehensive income (loss).

Consolidated Statement of Comprehensive Income (Loss) for the period from May 1, 2013 through June 30, 2013

The following supplemental information presents the financial results of MetroPCS operations included in the condensed consolidated statement of comprehensive income (loss) for the period from May 1, 2013 through June 30, 2013:

(in millions)	Six Months Ended June 30, 2013
Total revenues	$799
Net income	16

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Pro Forma Financial Information

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

	Six Months Ended June 30,	
(in millions, except per share amounts)	2013	2012
Pro forma revenues	$12,642	$12,542
Pro forma net income	80	323
Pro forma basic earnings per share	$0.13	$0.45
Pro forma diluted earnings per share	0.13	0.45

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

As the pro forma amounts assumed the business combination was completed as of January 1, 2012, pro forma earnings for the six months ended June 30, 2013 excluded $197 million of acquisition-related costs and these costs were included in the pro forma earnings for the six months ended June 30, 2012.

The pro forma results include the following:

- Increase in tax expenses based on the inclusion of MetroPCS in the combined company of $46 million for the six months ended June 30, 2013 and a decrease of $155 million for the six months ended June 30, 2012;
- Net increase to amortization and depreciation expense related to the fair value of the intangible assets and fixed assets acquired of $13 million and $98 million for the six months ended June 30, 2013 and 2012, respectively; and
- The impact of financing agreements entered into whereby an aggregate of $14.7 billion senior unsecured notes were issued in connection with the business combination for an increase to interest and other income (expense) of $91 million and $71 million for the six months ended June 30, 2013 and 2012, respectively.

3.Equipment Installment Plan Receivables

T-Mobile offers certain retail customers the option to pay for their devices and other purchases in installments over a period of up to 24 months. At the time of sale, T-Mobile imputes risk adjusted interest on the installment receivables and records the deferred interest as a reduction to equipment revenues and the related accounts receivable. Interest income was recognized over the financed installment term. The current portion of T-Mobile's equipment installment plan receivables was included in accounts receivable, net and was $824 million and $475 million as of June 30, 2013 and December 31, 2012, respectively. The long-term portion of the equipment installment plan receivables was included in other assets and was $468 million and $216 million as of June 30, 2013 and December 31, 2012, respectively.

Credit Quality

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

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

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

	June 30, 2013			December 31, 2012		
	Credit Category			Credit Category		
(in millions)	Prime	Subprime	Total	Prime	Subprime	Total
Unbilled	$746	$656	$1,402	$337	$432	$769
Billed - Current	21	24	45	13	21	34
Billed - Past due	7	22	29	3	10	13
Total equipment installment plan receivables	$774	$702	$1,476	$353	$463	$816

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

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

(in millions)	June 30, 2013
Allowance, December 31, 2012	$125
Change in deferred interest on short-term and long-term installment receivables	41
Bad debt expense	68
Write-offs	(50)
Allowance, June 30, 2013	$184

The allowances for credit losses include deferred interest of $151 million and $110 million as of June 30, 2013 and December 31, 2012, respectively.

4. Property and Equipment

The components of property and equipment were as follows:

(in millions)	Useful Lives	6/30/2013	12/31/2012
Buildings and improvements	Up to 40 years	$695	$676
Wireless communications systems	3 - 20 years	23,267	21,147
Capitalized software	3 - 7 years	5,753	5,078
Equipment and furniture	3 - 5 years	2,265	1,991
Construction in progress		1,992	1,659
Accumulated depreciation and amortization		(18,787)	(17,744)
Property and equipment, net		$15,185	$12,807

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

5. Goodwill, Spectrum Licenses and Intangible Assets

Goodwill and Spectrum Licenses

Carrying values of goodwill and spectrum licenses were as follows:

(in millions)	June 30, 2013	December 31, 2012
Goodwill	$1,683	$—
Spectrum licenses	18,415	14,550

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

Other Intangible Assets

The components of intangible assets were as follows:

(in millions)	Useful Lives	June 30, 2013	December 31, 2012
Customer lists	1 - 6 years	$1,315	$209
Trademarks	1 - 8 years	291	55
Other	Up to 28 years	97	58
Accumulated amortization		(313)	(243)
Other intangible assets, net		$1,390	$79

Customer lists, trademarks and other intangible assets include $1.1 billion, $233 million and $39 million respectively, based on preliminary fair values, related to the business combination with MetroPCS. See Note 2 – Transaction with MetroPCS for further information. Estimated aggregate future amortization expense for intangible assets subject to amortization was $185 million for the six months ended December 31, 2013, $332 million in 2014, $278 million in 2015, $222 million in 2016, $163 million in 2017 and $210 million thereafter.

6.Fair Value Measurements and Derivative Instruments

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

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

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

Interest Rate Swaps

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

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

Prior to the closing of the business combination with MetroPCS, Deutsche Telekom recapitalized T-Mobile by retiring the existing T-Mobile notes payable to affiliates and all related derivative instruments, which included the interest rate swaps. As of June 30, 2013, there were no outstanding interest rate swaps.

Cross Currency Interest Rate Swaps

Prior to the closing of the business combination, T-Mobile managed foreign currency risk along with interest rate risk through cross currency interest rate swap agreements related to its intercompany Euro denominated notes payable to affiliates, which were entered into upon assumption of the notes to fix the future interest and principal payments in U.S. dollars, as well as to mitigate the impact of foreign currency transaction gains or losses over the terms of the notes payable to affiliates extending to 2025. T-Mobile had three cross currency interest rate swaps with a total notional amount of $2.3 billion as of December 31,

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

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

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

Nonqualified Deferred Compensation Plan

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

Fair Value of Financial Instruments

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

	Balance Sheet	June 30, 2013			
(in millions)	Location	Level 1	Level 2	Level 3	Total
Assets					
Nonqualified deferred compensation	Long-term investments	$37	$—	$—	$37
Liabilities					
Nonqualified deferred compensation	Other long-term liabilities	37	—	—	37

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

During the three and six months ended June 30, 2013, T-Mobile did not have any transfers between Levels 1, 2 or 3 in the fair value hierarchy.

The following table summarizes the activity related to derivatives instruments:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions)	2013	2012	2013	2012
Gain (loss) recognized in other comprehensive income (loss):				
Cross currency interest rate swaps	$57	$(190)	$(17)	$(77)
Gain (loss) recognized in interest expense to affiliates:				
Interest rate swaps	6	31	8	46
Cross currency interest rate swaps	48	7	53	7

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Notes Payable to Affiliates and Long-term Debt

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

7.Notes Payable to Affiliates and Debt

Notes Payable to Affiliates

Prior to the closing of the business combination with MetroPCS, Deutsche Telekom recapitalized T-Mobile by retiring its notes payable to affiliates principal balance of $14.5 billion in exchange for $11.2 billion in new unsecured senior notes.

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

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

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