

T-Mobile US, Inc.
Form 10-Q
April 26, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF
 1934

For the quarterly period ended March 31, 2016

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 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 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 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

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

Edgar Filing: T-Mobile US, Inc. - Form 10-Q

Class	Shares Outstanding as of April 21, 2016
Common Stock, \$0.00001 par value per share	822,185,586

T-Mobile US, Inc.
Form 10-Q
For the Quarter Ended March 31, 2016

Table of Contents

PART I. FINANCIAL INFORMATION

<u>Item 1. Financial Statements</u>	<u>3</u>
<u>Condensed Consolidated Balance Sheets</u>	<u>3</u>
<u>Condensed Consolidated Statements of Comprehensive Income (Loss)</u>	<u>4</u>
<u>Condensed Consolidated Statements of Cash Flows</u>	<u>5</u>
<u>Notes to the Condensed Consolidated Financial Statements</u>	<u>6</u>
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>22</u>
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>34</u>
<u>Item 4. Controls and Procedures</u>	<u>34</u>

PART II. OTHER INFORMATION

<u>Item 1. Legal Proceedings</u>	<u>34</u>
<u>Item 1A. Risk Factors</u>	<u>34</u>
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>35</u>
<u>Item 3. Defaults Upon Senior Securities</u>	<u>35</u>
<u>Item 4. Mine Safety Disclosures</u>	<u>35</u>
<u>Item 5. Other Information</u>	<u>35</u>
<u>Item 6. Exhibits</u>	<u>36</u>
<u>SIGNATURE</u>	<u>37</u>

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

T-Mobile US, Inc.

Condensed Consolidated Balance Sheets

(Unaudited)

(in millions, except share and per share amounts)	March 31, 2016	December 31, 2015
Assets		
Current assets		
Cash and cash equivalents	\$ 3,647	\$ 4,582
Short-term investments	2,925	2,998
Accounts receivable, net of allowances of \$116 and \$116	1,880	1,788
Equipment installment plan receivables, net	2,149	2,378
Accounts receivable from affiliates	37	36
Inventories	1,443	1,295
Other current assets	1,263	1,813
Total current assets	13,344	14,890
Property and equipment, net	20,625	20,000
Goodwill	1,683	1,683
Spectrum licenses	25,495	23,955
Other intangible assets, net	541	594
Equipment installment plan receivables due after one year, net	904	847
Other assets	471	444
Total assets	\$ 63,063	\$ 62,413
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities	\$ 7,431	\$ 8,084
Payables to affiliates	253	135
Short-term debt	365	182
Deferred revenue	895	717
Other current liabilities	425	410
Total current liabilities	9,369	9,528
Long-term debt	20,505	20,461
Long-term debt to affiliates	5,600	5,600
Tower obligations	2,640	2,658
Deferred tax liabilities	4,285	4,061
Deferred rent expense	2,513	2,481
Other long-term liabilities	1,047	1,067
Total long-term liabilities	36,590	36,328
Commitments and contingencies (Note 7)		
Stockholders' equity		
5.50% Mandatory Convertible Preferred Stock Series A, par value \$0.00001 per share, 100,000,000 shares authorized; 20,000,000 and 20,000,000 shares issued and outstanding; \$1,000 and \$1,000 aggregate liquidation value	—	—
Common Stock, par value \$0.00001 per share, 1,000,000,000 shares authorized; 823,513,524 and 819,773,724 shares issued, 822,101,014 and 818,391,219 shares outstanding	—	—
Additional paid-in capital	38,700	38,666
Treasury stock, at cost, 1,412,510 and 1,382,505 shares issued	(1) —

Edgar Filing: T-Mobile US, Inc. - Form 10-Q

Accumulated other comprehensive loss	(4)	(1)
Accumulated deficit	(21,591)	(22,108)
Total stockholders' equity	17,104		16,557	
Total liabilities and stockholders' equity	\$63,063		\$ 62,413	

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

3

Table of Contents

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

(in millions, except share and per share amounts)	Three Months Ended	
	2016	2015
Revenues		
Branded postpaid revenues	\$4,302	\$ 3,774
Branded prepaid revenues	2,025	1,842
Wholesale revenues	200	158
Roaming and other service revenues	51	45
Total service revenues	6,578	5,819
Equipment revenues	1,851	1,851
Other revenues	170	108
Total revenues	8,599	7,778
Operating expenses		
Cost of services, exclusive of depreciation and amortization shown separately below	1,421	1,395
Cost of equipment sales	2,374	2,679
Selling, general and administrative	2,749	2,372
Depreciation and amortization	1,552	1,087
Cost of MetroPCS business combination	36	128
Gains on disposal of spectrum licenses	(636)	—
Total operating expenses	7,496	7,661
Operating income	1,103	117
Other income (expense)		
Interest expense	(339)	(261)
Interest expense to affiliates	(79)	(64)
Interest income	68	112
Other expense, net	(2)	(8)
Total other expense, net	(352)	(221)
Income (loss) before income taxes	751	(104)
Income tax (expense) benefit	(272)	41
Net income (loss)	479	(63)
Dividends on preferred stock	(14)	(14)
Net income (loss) attributable to common stockholders	\$465	\$ (77)
Net income (loss)	\$479	\$ (63)
Other comprehensive loss, net of tax		
Unrealized loss on available-for-sale securities, net of tax effect of \$(2) and \$0	(3)	—
Other comprehensive loss	(3)	—
Total comprehensive income (loss)	\$476	\$ (63)
Earnings (loss) per share		
Basic	\$0.57	\$ (0.09)
Diluted	\$0.56	\$ (0.09)
Weighted average shares outstanding		
Basic	819,431,708	808,605,526
Diluted	859,382,827	808,605,526

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

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

(in millions)	Three Months Ended March 31,	
	2016	2015
Operating activities		
Net income (loss)	\$479	\$(63)
Adjustments to reconcile net income (loss) to net cash provided by operating activities		
Depreciation and amortization	1,552	1,087
Stock-based compensation expense	52	55
Deferred income tax expense (benefit)	264	(50)
Bad debt expense	121	104
Losses from sales of receivables	52	65
Deferred rent expense	32	41
Gains on disposal of spectrum licenses	(636)	—
Changes in operating assets and liabilities		
Accounts receivable	(202)	(170)
Equipment installment plan receivables	109	(229)
Inventories	(801)	(145)
Deferred purchase price from sales of receivables	21	5
Other current and long-term assets	185	91
Accounts payable and accrued liabilities	(492)	(393)
Other current and long-term liabilities	288	92
Other, net	1	(1)
Net cash provided by operating activities	1,025	489
Investing activities		
Purchases of property and equipment	(1,335)	(982)
Purchases of spectrum licenses and other intangible assets, including deposits	(594)	(1,696)
Sales of short-term investments	75	—
Other, net	(6)	(14)
Net cash used in investing activities	(1,860)	(2,692)
Financing activities		
Repayments of capital lease obligations	(36)	(5)
Repayments of short-term debt for purchases of inventory, property and equipment, net	—	(63)
Repayments of long-term debt	(5)	—
Tax withholdings on share-based awards	(46)	(28)
Dividends on preferred stock	(14)	(14)
Other, net	1	30
Net cash used in financing activities	(100)	(80)
Change in cash and cash equivalents	(935)	(2,283)
Cash and cash equivalents		
Beginning of period	4,582	5,315
End of period	\$3,647	\$3,032
Supplemental disclosure of cash flow information:		
Interest payments, net of amounts capitalized	\$415	\$327
Income tax payments	2	2
Noncash investing and financing activities:		
Decrease in accounts payable for purchases of property and equipment	\$(127)	\$(178)

Edgar Filing: T-Mobile US, Inc. - Form 10-Q

Leased wireless devices transferred from inventory to property and equipment, net of returns	653	—
Issuance of short-term debt for financing of property and equipment purchases	150	443
Assets acquired under capital lease obligations	124	3

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

5

Table of Contents

T-Mobile US, Inc.

Index for Notes to the Condensed Consolidated Financial Statements

<u>Note 1 Basis of Presentation</u>	<u>7</u>
<u>Note 2 Significant Transactions</u>	<u>8</u>
<u>Note 3 Sales of Certain Receivables</u>	<u>9</u>
<u>Note 4 Equipment Installment Plan Receivables</u>	<u>12</u>
<u>Note 5 Fair Value Measurements</u>	<u>13</u>
<u>Note 6 Earnings (Loss) Per Share</u>	<u>14</u>
<u>Note 7 Commitments and Contingencies</u>	<u>14</u>
<u>Note 8 Subsequent Events</u>	<u>15</u>
<u>Note 9 Guarantor Financial Information</u>	<u>15</u>

Table of Contents

T-Mobile US, Inc.

Notes to the Condensed Consolidated Financial Statements

Note 1 – Basis of Presentation

The unaudited condensed consolidated financial statements of T-Mobile US, Inc. (“T-Mobile,” “we,” “our” or the “Company”) include all adjustments of a normal recurring nature necessary for the fair presentation of the results for the interim periods presented. The results for the interim periods are not necessarily indicative of those for the full year. The condensed consolidated financial statements should be read in conjunction with our consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2015.

The condensed consolidated financial statements include the balances and results of operations of T-Mobile and our consolidated subsidiaries. We consolidate majority-owned subsidiaries over which we exercise control, as well as variable interest entities (“VIE”) where we are deemed to be the primary beneficiary and VIEs, which cannot be deconsolidated, such as those related to Tower obligations. Intercompany transactions and balances have been eliminated in consolidation. Certain prior period amounts have been reclassified to conform to the current presentation.

The preparation of financial statements in conformity with United States (“U.S.”) generally accepted accounting principles (“GAAP”) requires our management to make estimates and assumptions which affect the financial statements and accompanying notes. Estimates are based on historical experience, where applicable, and other assumptions which our management believes are reasonable under the circumstances. These estimates are inherently subject to judgment and actual results could differ from those estimates.

Accounting Pronouncements Adopted During the Current Year

In April 2015, the Financial Accounting Standards Board (the “FASB”) issued Accounting Standards Update (“ASU”) 2015-03, “Simplifying the Presentation of Debt Issuance Costs.” The standard requires debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected. We adopted this new guidance in the first quarter of 2016 and applied the changes retrospectively. The implementation of this standard did not have a significant impact on our condensed consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, “Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting,” which simplifies several aspects of the accounting for share-based payment transactions, including income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. We elected to adopt this standard as of January 1, 2016, as permitted. The impacts on our condensed consolidated financial statements from the adoption of this standard are as follows:

Condensed Consolidated Balance Sheets - a \$38 million decrease to the January 1, 2016 Accumulated deficit balance from the recognition, on a modified retrospective basis, of all previously unrecognized income tax attributes related to share-based payments;

Condensed Consolidated Statements of Comprehensive Income (Loss) - on a prospective basis, all excess tax benefits and deficiencies related to share-based payments will be recognized through Income tax (expense) benefit; and

Condensed Consolidated Statements of Cash Flows - prospectively, as permitted, excess tax benefits related to share-based payments will be presented as operating activities. Prior period amounts were not adjusted.

Accounting Pronouncements Not Yet Adopted

In May 2014, the FASB issued ASU 2014-09, “Revenue from Contracts with Customers” (“ASU 2014-09”). The standard requires entities to recognize revenue through the application of a five-step model, which includes identification of the contract, identification of the performance obligations, determination of the transaction price, allocation of the transaction price to the performance obligations and recognition of revenue as the entity satisfies the performance obligations. In August 2015, the FASB issued ASU 2015-14, “Revenue From Contracts With Customers (Topic 606): Deferral of the Effective Date.” The amendments in the ASU 2015-14 defer the effective date of ASU 2014-09 by one year. The standard will become effective for us beginning January 1, 2018; however, early adoption with the original effective date for periods beginning January 1, 2017 will be permitted. We are currently evaluating the guidance to determine the potential impact on our consolidated financial statements. Under ASU 2014-09, two adoption methods are allowed. Under one method, a company may apply the rules to

Table of Contents

contracts in all reporting periods presented, subject to certain allowable exceptions. Under the other method, a company may apply the rules to all contracts existing as of January 1, 2018 (provided early adoption is not elected), recognizing an adjustment to retained earnings for the cumulative effect of the change and providing additional disclosures comparing results to previous rules. We continue to evaluate the impact of the new standard and available adoption methods and believe the standard will require the implementation of new revenue accounting systems, processes and internal controls over revenue recognition.

In February 2016, the FASB issued ASU 2016-02, "Leases." The standard requires all lessees to report a right-of-use asset and a lease liability for most leases. For lessors, the standard modifies the classification criteria and the accounting for sales-type and direct financing leases. The standard will become effective for us beginning January 1, 2019 and will require recognizing and measuring leases at the beginning of the earliest period presented using a modified retrospective approach. Early adoption is permitted. We are currently evaluating the standard to determine the potential impact on our condensed consolidated financial statements.

Note 2 – Significant Transactions

Spectrum License Transactions

The following table summarizes our spectrum license activity:

(in millions)	Spectrum Licenses
Balance at December 31, 2015	\$23,955
Spectrum license acquisitions	1,761
Spectrum licenses transferred to held for sale	(237)
Costs to clear spectrum	16
Balance at March 31, 2016	\$25,495

We had the following spectrum license transactions during the three months ended March 31, 2016:

We closed on our agreement with AT&T Inc. for the acquisition and exchange for certain spectrum licenses. Upon closing of the transaction, we recorded the spectrum licenses received at their estimated fair value of approximately \$1.2 billion and recognized a gain of \$636 million included in Gains on disposal of spectrum licenses in our Condensed Consolidated Statements of Comprehensive Income (Loss).

We acquired spectrum licenses covering 20 million people in seven major metropolitan markets for approximately \$578 million in cash.

We entered into agreements with multiple third parties for the purchase and exchange of certain spectrum licenses covering approximately 48 million people for approximately \$706 million. Our spectrum licenses to be transferred as part of the exchange transactions were reclassified as assets held for sale and were included in Other current assets in our Condensed Consolidated Balance Sheets at their carrying value of \$237 million as of March 31, 2016. We expect to recognize gains upon closing of the exchange transactions, which we expect to occur in the second quarter of 2016, subject to regulatory approval and other customary closing conditions.

Debt

In March 2016, T-Mobile USA, Inc. ("T-Mobile USA"), a subsidiary of T-Mobile US, Inc., and certain of its affiliates as guarantors, entered into a purchase agreement with Deutsche Telekom AG ("Deutsche Telekom"), our majority stockholder, in which T-Mobile USA has agreed to issue and sell to Deutsche Telekom \$2.0 billion of 5.300% Senior Notes due 2021 (the "5.300% Senior Notes") for an aggregate purchase price of \$2.0 billion. Subject to certain limited

and customary closing conditions, the issuance and sale of the 5.300% Senior Notes is scheduled to occur on a date determined by T-Mobile USA that may not be later than December 7, 2016. T-Mobile USA may elect not to issue the 5.300% Senior Notes and can terminate the commitment under the purchase agreement at any time on or prior to November 30, 2016 subject to reimbursing Deutsche Telekom for the cost of its hedging arrangements related to the transaction. As of March 31, 2016, if the commitment was terminated, the reimbursement amount due to Deutsche Telekom would not be significant.

Table of Contents

Subsequent to March 31, 2016, on April 1, 2016, T-Mobile USA, and certain of its affiliates as guarantors, issued \$1.0 billion of public 6.000% Senior Notes due 2024.

Subsequent to March 31, 2016, on April 25, 2016, T-Mobile USA, and certain of its affiliates as guarantors, entered into a purchase agreement with Deutsche Telekom, in which T-Mobile USA has agreed to issue and sell to Deutsche Telekom up to \$1.35 billion of 6.000% Senior Notes due 2024 (the “2024 6.000% Senior Notes”). Subject to certain limited and customary closing conditions, the issuance and sale of the 2024 6.000% Senior Notes is scheduled to occur on a date determined by T-Mobile USA that may not be later than November 30, 2016. The purchase price for the Notes will be determined on the issuance date to reflect the effective yield of 5.14% on T-Mobile USA’s 6.000% Senior Notes due 2024, issued on April 1, 2016, using their average trading price of 103.708% as of April 22, 2016. The minimum purchase price payable for the 2024 6.000% Senior Notes would be 103.316% if the 2024 6.000% Senior Notes were issued on the latest permissible issue date of November 30, 2016. T-Mobile USA may elect not to issue the 2024 6.000% Senior Notes and can terminate the commitment under the purchase agreement at any time on or prior to November 5, 2016, subject to reimbursing Deutsche Telekom for the cost (if any) of its hedging arrangements related to the transaction. T-Mobile USA may elect to issue less than \$1.35 billion aggregate principal balance of the 2024 6.000% Senior Notes subject to (i) termination of the purchase commitment for the unused portion and (ii) reimbursing Deutsche Telekom for the cost (if any) of its hedging arrangements on such unused portion.

Note 3 – Sales of Certain Receivables

We have entered into transactions to sell certain service and Equipment Installment Plan (“EIP”) accounts receivables. The transactions, including our continuing involvement with the sold receivables and the respective impacts to our financial statements, are described below.

Sales of Service Receivables

Overview of the Transaction

In 2014, we entered into an arrangement to sell certain service accounts receivables on a revolving basis with a current maximum funding commitment of \$750 million and scheduled expiration date in March 2017. Sales of receivables occur daily and are settled on a monthly basis. The receivables consist of service charges currently due from customers and are short-term in nature.

In connection with the sale arrangement, we formed a wholly-owned subsidiary, which qualifies as a bankruptcy remote entity to sell service accounts receivables (“Service BRE”). Service BRE does not qualify as a Variable Interest Entity (“VIE”), and due to the significant level of control we exercise over the entity, it is consolidated. Pursuant to the arrangement, certain of our wholly-owned subsidiaries transfer selected receivables to Service BRE. Service BRE then sells the receivables to an unaffiliated entity (“Service VIE”), which was established to facilitate the sale of beneficial ownership interests in the receivables to certain third parties.

Variable Interest Entity

We determined that Service VIE qualifies as a VIE as it lacks sufficient equity to finance its activities. We have a variable interest in Service VIE, but are not the primary beneficiary as we lack the power to direct the activities that most significantly impact Service VIE’s economic performance. Those activities include committing Service VIE to legal agreements to purchase or sell assets, selecting which receivables are purchased in the arrangement, determining whether Service VIE will sell interests in the purchased service receivables to other parties, funding of the entities and servicing of receivables. We do not hold the power to direct the key decisions underlying these activities. For

example, while we act as the servicer of the sold receivables, which is considered a significant activity of the VIE, we are acting as an agent in our capacity as the servicer and the counterparty to the arrangement has the ability to remove us as the servicing agent of the receivables at will with no recourse available to us. As we have determined we are not the primary beneficiary, the results of Service VIE are not consolidated into our condensed consolidated financial statements.

The following table summarizes the carrying amounts and classification of assets (primarily the deferred purchase price) and liabilities included in our Condensed Consolidated Balance Sheets that relate to our variable interest in Service VIE:

9

Table of Contents

(in millions)	March 31, December 31,	
	2016	2015
Other current assets	\$ 172	\$ 206
Accounts payable and accrued liabilities	44	—
Other current liabilities	108	73

Sales of EIP Receivables

Overview of the Transaction

In 2015, we entered into an arrangement to sell certain EIP accounts receivables on a revolving basis with a committed securitization facility of \$800 million, of which \$150 million is scheduled to expire in July 2016 and \$650 million is scheduled to expire in November 2017. Sales of EIP receivables occur daily and are settled on a monthly basis. The receivables consist of customer EIP balances, which require monthly customer payments for up to 24 months. In connection with this securitization arrangement, we formed a wholly-owned subsidiary, which qualifies as a bankruptcy remote entity (“EIP BRE”). Pursuant to the arrangement, our wholly-owned subsidiary transfers selected receivables to EIP BRE. EIP BRE then sells the receivables to a non-consolidated and unaffiliated third-party entity for which we do not exercise any level of control, nor does the entity qualify as a VIE.

Variable Interest Entity

We determined that EIP BRE is a VIE as its equity investment at risk lacks the obligation to absorb a certain portion of its expected losses. We have a variable interest in EIP BRE and determined that we are the primary beneficiary based on our ability to direct the activities which most significantly impact EIP BRE’s economic performance. Those activities include selecting which receivables are transferred into EIP BRE and sold in the arrangement and funding of EIP BRE. Additionally, our equity interest in EIP BRE obligates us to absorb losses and gives us the right to receive benefits from the EIP BRE that could potentially be significant to EIP BRE. Accordingly, we determined that we are the primary beneficiary, and include the balances and results of operations of EIP BRE in our condensed consolidated financial statements.

The following table summarizes the carrying amounts and classification of assets (primarily the deferred purchase price) and liabilities included in our Condensed Consolidated Balance Sheets that relate to our EIP BRE:

(in millions)	March 31, December 31,	
	2016	2015
Other current assets	\$ 154	\$ 164
Other assets	42	44
Accounts payable and accrued liabilities	—	14
Other long-term liabilities	3	3

In addition, EIP BRE is a separate legal entity with its own separate creditors who will be entitled, prior to any liquidation of EIP BRE, to be satisfied prior to any value in EIP BRE becoming available to us. Accordingly, the assets of EIP BRE may not be used to settle our general obligations and creditors of EIP BRE have limited recourse to our general credit.

Sales of Receivables

The transfers of service receivables and EIP receivables to the non-consolidated entities are accounted for as sales of financial assets. Once identified for sale the receivable is recorded at the lower of cost or fair value. Upon sale, we derecognize the net carrying amount of the receivables. We recognize the net cash proceeds in Net cash provided by

operating activities in our Condensed Consolidated Statements of Cash Flows.

The proceeds are net of the deferred purchase price, consisting of a receivable from the purchasers that entitles us to certain collections on the receivables. We recognize the collection of the deferred purchase price in Net cash provided by operating activities as it is dependent on collection of the customer receivables and is not subject to significant interest rate risk. The deferred purchase price represents a financial asset that is primarily tied to the creditworthiness of the customers and which can be settled in such a way that we may not recover substantially all of our recorded investment, due to default by the customers on the underlying receivables. We elected, at inception, to measure the deferred purchase price at fair value with changes in fair value included in Selling, general and administrative expense in our Condensed Consolidated Statements of Comprehensive Income (Loss). The fair value of the deferred purchase price is determined based on a discounted cash flow

Table of Contents

model which uses primarily unobservable inputs (Level 3 inputs), including customer default rates. As of March 31, 2016 and December 31, 2015, our deferred purchase price related to the sales of service receivables and EIP receivables was \$368 million and \$389 million, respectively.

The following table summarizes the impacts of the sale of certain service receivables and EIP receivables in our Condensed Consolidated Balance Sheets:

(in millions)	March 31, December 31,	
	2016	2015
Derecognized net service receivables and EIP receivables	\$ 1,744	\$ 1,850
Other current assets	326	370
of which, deferred purchase price	326	345
Other long-term assets	42	44
of which, deferred purchase price	42	44
Accounts payable and accrued liabilities	44	14
Other current liabilities	108	73
Other long-term liabilities	3	3
Net cash proceeds since inception	1,505	1,494
Of which:		
Net cash proceeds during the period	11	884
Net cash proceeds funded by reinvested collections	1,494	610

We recognized losses from sales of receivables of \$52 million and \$65 million for the three months ended March 31, 2016 and 2015, respectively, which were recognized in Selling, general and administrative expense in our Condensed Consolidated Statements of Comprehensive Income (Loss). Losses from sales of receivables include adjustments to the receivables' fair values and changes in fair value of the deferred purchase price.

Continuing Involvement

Pursuant to the sale arrangements, we have continuing involvement with the sold service receivables and EIP receivables as we service the receivables and are required to repurchase certain receivables, including ineligible receivables, aged receivables and receivables where write-off is imminent. We continue to service the customers and their related receivables, including facilitating customer payment collection, in exchange for a monthly servicing fee. As the receivables are sold on a revolving basis, the customer payment collections on sold receivables may be reinvested in new receivable sales. While servicing the receivables, we apply the same policies and procedures to the sold receivables as we apply to our owned receivables, and we continue to maintain normal relationships with our customers. Pursuant to the EIP securitization arrangement, under certain circumstances, we are required to deposit cash or replacement EIP receivables for contracts terminated by customers under our JUMP! Program.

In addition, we have continuing involvement with the sold receivables as we may be responsible for absorbing additional credit losses pursuant to the securitization arrangements. Our maximum exposure to loss related to the involvement with the arrangements to sell service receivables and EIP receivables was \$689 million as of March 31, 2016. The maximum exposure to loss, which is a required disclosure under GAAP, represents an estimated loss that would be incurred under severe, hypothetical circumstances whereby we would not receive the deferred purchase price portion of the contractual proceeds withheld by the purchasers and would also be required to repurchase the maximum amount of receivables pursuant to the securitization arrangements without consideration for any recovery. As we believe the probability of these circumstances occurring is remote, the maximum exposure to loss is not an indication of our expected loss.

Table of Contents

Note 4 – Equipment Installment Plan Receivables

We offer certain retail customers the option to pay for their devices and other purchases in installments over a period of up to 24 months using an EIP.

The following table summarizes the EIP receivables:

(in millions)	March 31, 2016	December 31, 2015
EIP receivables, gross	\$ 3,376	\$ 3,558
Unamortized imputed discount	(194)	(185)
EIP receivables, net of unamortized imputed discount	3,182	3,373
Allowance for credit losses	(129)	(148)
EIP receivables, net	\$ 3,053	\$ 3,225

Classified on the balance sheet as:

Equipment installment plan receivables, net	\$ 2,149	\$ 2,378
Equipment installment plan receivables due after one year, net	904	847
EIP receivables, net	\$ 3,053	\$ 3,225

We use a proprietary credit scoring model that measures the credit quality of a customer at the time of application for mobile communications service using several factors, such as credit bureau information, consumer credit risk scores and service plan characteristics. Based upon customer credit profiles, we classify EIP receivables into the credit categories of “Prime” and “Subprime.” Prime customer receivables are those with lower delinquency risk and Subprime customer receivables are those with higher delinquency risk. Subprime customers are generally required to make a down payment on their equipment purchases. In addition, certain customers within the Subprime category are required to pay an advance deposit.

EIP receivables for which invoices have not yet been generated for the customer are classified as Unbilled. EIP receivables for which invoices have been generated but which are not past the contractual due date are classified as Billed – Current. EIP receivables for which invoices have been generated and the payment is past the contractual due date are classified as Billed – Past Due.

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

(in millions)	March 31, 2016			December 31, 2015		
	Prime	Subprime	Total	Prime	Subprime	Total
Unbilled	\$1,490	\$ 1,658	\$3,148	\$1,593	\$ 1,698	\$3,291
Billed – Current	68	83	151	77	91	168
Billed – Past Due	29	48	77	37	62	99
EIP receivables, gross	\$1,587	\$ 1,789	\$3,376	\$1,707	\$ 1,851	\$3,558

Activity in the unamortized imputed discount and allowance for credit losses balances for the EIP receivables was as follows:

(in millions)	March 31, 2016	March 31, 2015
Imputed discount and allowance for credit losses, beginning of period	\$ 333	\$ 448
Bad debt expense	62	77
Write-offs, net of recoveries	(81)	(87)
Change in imputed discount on short-term and long-term EIP receivables	28	(5)
Impacts from sales of EIP receivables	(19)	—

Edgar Filing: T-Mobile US, Inc. - Form 10-Q

Imputed discount and allowance for credit losses, end of period	\$ 323	\$ 433
---	--------	--------

The EIP receivables had weighted average effective imputed interest rates of 9.2% and 8.8% as of March 31, 2016 and December 31, 2015, respectively.

12

Table of Contents

Note 5 – Fair Value Measurements

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The carrying amounts and fair values of our short-term investments and long-term debt included in our Condensed Consolidated Balance Sheets were as follows:

(in millions)	March 31, 2016		December 31, 2015	
	Carrying Fair Amount	Fair Value	Carrying Fair Amount	Fair Value
Assets:				
Short-term investments	\$2,925	\$2,925	\$2,998	\$2,998
Liabilities:				
Senior Notes to third parties	\$17,600	\$18,309	\$17,600	\$18,098
Senior Reset Notes to affiliates	5,600	5,999	5,600	6,072
Senior Secured Term Loans	1,995	2,018	2,000	1,990

Short-term Investments

The fair value of our short-term investments, which consist of U.S. Treasury securities, was determined based on quoted market prices in active markets, and therefore was classified as Level 1 in the fair value hierarchy. Gross unrealized gains and losses on available-for-sale securities were not significant as of March 31, 2016.

Long-term Debt

The fair value of our Senior Notes to third parties was determined based on quoted market prices in active markets, and therefore was classified as Level 1 in the fair value hierarchy. The fair value of the Senior Secured Term Loans and Senior Reset Notes to affiliates was determined based on a discounted cash flow approach using quoted prices of instruments with similar terms and maturities and an estimate for the stand-alone credit risk of T-Mobile. Accordingly, our Senior Secured Term Loans and Senior Reset Notes to affiliates were classified as Level 2 in the fair value hierarchy.

Although we have determined the estimated fair values using available market information and commonly accepted valuation methodologies, considerable judgment was required in interpreting market data to develop fair value estimates for the Senior Secured Term Loans and Senior Reset Notes to affiliates. The fair value estimates were based on information available as of March 31, 2016 and December 31, 2015. As such, our estimates are not necessarily indicative of the amount we could realize in a current market exchange.

Deferred Purchase Price Assets

In connection with the sales of certain service and EIP receivables pursuant to the sale arrangements, we have deferred purchase price assets measured at fair value that are based on a discounted cash flow model using unobservable Level 3 inputs, including customer default rates. There were no significant changes in fair value for the three months ended March 31, 2016. See Note 3 – Sales of Certain Receivables for further information.

Guarantee Liabilities

We offer a device trade-in program, Just Upgrade My Phone (“JUMP!”), which provides eligible customers a specified-price trade-in right to upgrade their device. For customers who enroll in the device trade-in program, we

defer the portion of equipment revenues which represents the estimated fair value of the specified-price trade-in right guarantee incorporating the expected probability and timing of the handset upgrade and the fair value of the used handset which is returned. When customers upgrade their device, the difference between the trade-in credit to the customer and the fair value of the returned device is recorded against the guarantee liabilities. Guarantee liabilities were \$141 million and \$163 million as of March 31, 2016 and December 31, 2015, respectively and are included in Other current liabilities in our Condensed Consolidated Balance Sheets.

Table of Contents

The total estimated remaining gross EIP receivable balances of all enrolled handset upgrade program customers, which are the remaining EIP amounts underlying the JUMP! guarantee, including for EIP receivables that have been sold, was \$2.1 billion as of March 31, 2016. This is not an indication of our expected loss exposure as it does not consider the expected fair value of the used handset or the probability and timing of the trade-in.

Note 6 – Earnings (Loss) Per Share

Basic earnings per share amounts are computed by dividing net income (loss), after the deduction of preferred stock dividends declared by the weighted average number of common shares outstanding. Diluted earnings per share amounts assume the issuance of common stock potentially dilutive share equivalents outstanding.

The computation of basic and diluted earnings (loss) per share was as follows:

(in millions, except shares and per share amounts)	Three Months Ended March 31,	
	2016	2015
Net income (loss)	\$479	\$ (63)
Less: Dividends on preferred stock	(14)	(14)
Net income (loss) attributable to common stockholders - basic	465	(77)
Add: Dividends related to mandatory convertible preferred stock	14	—
Net income (loss) attributable to common stockholders - diluted	\$479	\$ (77)
Weighted average shares outstanding - basic	819,431,808	819,605,526
Effect of dilutive securities:		
Outstanding stock options and unvested stock awards	7,713,800	—
Mandatory convertible preferred stock	32,237,266	—
Weighted average shares outstanding - diluted	859,382,874	819,605,526
Earnings (loss) per share - basic	\$0.57	\$ (0.09)
Earnings (loss) per share - diluted	\$0.56	\$ (0.09)
Potentially dilutive securities:		
Outstanding stock options and unvested stock awards	967,839	25,935,082
Mandatory convertible preferred stock	—	32,237,266

Potentially dilutive securities were not included in the computation of diluted earnings per share for certain periods if to do so would have been antidilutive. For the three months ended March 31, 2015, basic weighted average shares outstanding and diluted weighted average shares outstanding were the same because the effect of potential shares of common stock was anti-dilutive as we generated a net loss attributable to common stockholders.

Note 7 – Commitments and Contingencies

Commitments

In March 2016, T-Mobile USA entered into a Purchase Agreement with Deutsche Telekom in which T-Mobile USA has agreed to issue and sell to Deutsche Telekom \$2.0 billion of 5.300% Senior Notes due 2021 for an aggregate purchase price of \$2.0 billion. See Note 2 – Significant Transactions for further information.

Contingencies and Litigation

T-Mobile is involved in various lawsuits, claims, government agency investigations and enforcement actions, and other proceedings (“Litigation Matters”) that arise in the ordinary course of business, which include numerous court actions alleging that T-Mobile is infringing various patents. Virtually all of the patent infringement cases are brought by non-practicing entities and effectively seek only monetary damages, although they occasionally seek injunctive relief as well. The Litigation Matters described above have progressed to various stages and some of them may proceed to trial, arbitration, hearing or other adjudication that could include an award of monetary or injunctive relief in the coming 12 months, if they are not otherwise resolved. T-Mobile has established an accrual with respect to certain of these matters, where appropriate, which is reflected in the condensed consolidated financial statements but that T-Mobile does not consider, individually or in the aggregate, material.

Table of Contents

An accrual is established when T-Mobile believes it is both probable that a loss has been incurred and an amount can be reasonably estimated. For other matters, where the Company has not determined that a loss is probable or because the amount of loss cannot be reasonably estimated, the Company has not recorded an accrual due to various factors typical in contested proceedings, including but not limited to: uncertainty concerning legal theories and their resolution by courts or regulators; uncertain damage theories and demands; and a less than fully developed factual record. While T-Mobile does not expect that the ultimate resolution of these proceedings, individually or in the aggregate will have a material adverse effect on the Company's financial position, an unfavorable outcome of some or all of these proceedings could have a material adverse impact on results of operations or cash flows for a particular period. This assessment is based on T-Mobile's current understanding of relevant facts and circumstances. As such, T-Mobile's view of these matters is subject to inherent uncertainties and may change in the future.

On April 4, 2012, T-Mobile was sued in a patent infringement case by Prism Technologies LLC ("Prism") in the U.S. District Court for the District of Nebraska, asserting claims relating to patents that Prism claims are related to authentication and use of the internet by T-Mobile's network, and sought damages of up to \$114.9 million. On October 30, 2015, the jury reached a verdict in favor of T-Mobile, finding non-infringement on all patents. The trial court rejected Prism's efforts to overturn the jury's verdict, and has entered final judgment. Both parties have until May 6, 2016 to file an appeal. The Company does not believe that a loss is probable or that the amount of a loss can be reasonably estimated at this time, and does not expect that the ultimate resolution of this case will have a material adverse effect on the Company's financial position, results of operations or cash flows.

Note 8 – Subsequent Events

Debt

Subsequent to March 31, 2016, on April 1, 2016 T-Mobile USA issued \$1.0 billion of public 6.000% Senior Notes due 2024. See Note 2 – Significant Transactions for further information.

Subsequent to March 31, 2016, on April 25, 2016, T-Mobile USA entered into a purchase agreement with Deutsche Telekom, in which T-Mobile USA has agreed to issue and sell to Deutsche Telekom up to \$1.35 billion of 6.000% Senior Notes due 2024. See Note 2 – Significant Transactions for further information.

Note 9 – Guarantor Financial Information

Pursuant to the applicable indentures and supplemental indentures, the long-term debt to affiliates and third parties, excluding Senior Secured Term Loans and capital leases, issued by T-Mobile USA ("Issuer") is fully and unconditionally guaranteed, jointly and severally, on a senior unsecured basis by T-Mobile ("Parent") and certain of the Issuer's 100% owned subsidiaries ("Guarantor Subsidiaries").

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

Presented below is the condensed consolidating financial information as of March 31, 2016 and December 31, 2015 and for the three months ended March 31, 2016 and 2015, respectively.

Table of ContentsCondensed Consolidating Balance Sheet Information
March 31, 2016

(in millions)	Parent	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating and Eliminating Adjustments	Consolidated
Assets						
Current assets						
Cash and cash equivalents	\$365	\$1,469	\$ 1,700	\$ 113	\$ —	\$ 3,647
Short-term investments	—	2,000	925	—	—	2,925
Accounts receivable, net	—	—	1,657	223	—	1,880
Equipment installment plan receivables, net	—	—	2,149	—	—	2,149
Accounts receivable from affiliates	—	6	31	—	—	37
Inventories	—	—	1,443	—	—	1,443
Other current assets	—	—	918	345	—	1,263
Total current assets	365	3,475	8,823	681	—	13,344
Property and equipment, net ⁽¹⁾	—	—	20,192	433	—	20,625
Goodwill	—	—	1,683	—	—	1,683
Spectrum licenses	—	—	25,495	—	—	25,495
Other intangible assets, net	—	—	541	—	—	541
Investments in subsidiaries, net	16,698	33,141	—	—	(49,839)	—
Intercompany receivables	41	6,214	—	—	(6,255)	—
Equipment installment plan receivables due after one year, net	—	—	904	—	—	904
Other assets	—	6	423	220	(178)	471
Total assets	\$17,104	\$42,836	\$ 58,061	\$ 1,334	\$ (56,272)	\$ 63,063
Liabilities and Stockholders' Equity						