

T-Mobile US, Inc.
Form 10-Q
October 24, 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 September 30, 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

(State or other jurisdiction of incorporation or organization)

20-0836269

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

12920 SE 38th Street, Bellevue, Washington

(Address of principal executive offices)

98006-1350

(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

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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 October 20, 2016
Common Stock, \$0.00001 par value per share	824,015,429

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For the Quarter Ended September 30, 2016

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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)

	September 30, 2016	December 31, 2015
Assets		
Current assets		
Cash and cash equivalents	\$ 5,352	\$ 4,582
Short-term investments	—	2,998
Accounts receivable, net of allowances of \$111 and \$116	1,885	1,788
Equipment installment plan receivables, net	1,669	2,378
Accounts receivable from affiliates	46	36
Inventories	1,039	1,295
Asset purchase deposit	2,203	—
Other current assets	1,336	1,813
Total current assets	13,530	14,890
Property and equipment, net	20,574	20,000
Goodwill	1,683	1,683
Spectrum licenses	26,590	23,955
Other intangible assets, net	431	594
Equipment installment plan receivables due after one year, net	839	847
Other assets	625	444
Total assets	\$ 64,272	\$ 62,413
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities	\$ 6,146	\$ 8,084
Payables to affiliates	313	135
Short-term debt	325	182
Deferred revenue	980	717
Other current liabilities	355	410
Total current liabilities	8,119	9,528
Long-term debt	21,825	20,461
Long-term debt to affiliates	5,600	5,600
Tower obligations	2,629	2,658
Deferred tax liabilities	4,648	4,061
Deferred rent expense	2,591	2,481
Other long-term liabilities	1,007	1,067
Total long-term liabilities	38,300	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; 825,422,350 and 819,773,724 shares issued, 824,010,863 and 818,391,219 shares outstanding	—	—

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Additional paid-in capital	38,853	38,666
Treasury stock, at cost, 1,411,487 and 1,382,505 shares issued	(1) —
Accumulated other comprehensive income (loss)	1	(1)
Accumulated deficit	(21,000) (22,108)
Total stockholders' equity	17,853	16,557
Total liabilities and stockholders' equity	\$ 64,272	\$ 62,413

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

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Condensed Consolidated Statements of Comprehensive Income
(Unaudited)

(in millions, except share and per share amounts)	Three Months Ended		Nine Months Ended	
	September 30, 2016	2015	September 30, 2016	2015
Revenues				
Branded postpaid revenues	\$4,647	\$ 4,197	\$13,458	\$ 12,046
Branded prepaid revenues	2,182	1,894	6,326	5,597
Wholesale revenues	238	170	645	492
Roaming and other service revenues	66	41	170	130
Total service revenues	7,133	6,302	20,599	18,265
Equipment revenues	1,948	1,416	5,987	5,182
Other revenues	165	131	481	359
Total revenues	9,246	7,849	27,067	23,806
Operating expenses				
Cost of services, exclusive of depreciation and amortization shown separately below	1,436	1,378	4,286	4,170
Cost of equipment sales	2,539	1,985	7,532	7,325
Selling, general and administrative	2,898	2,624	8,419	7,434
Depreciation and amortization	1,568	1,157	4,695	3,319
Cost of MetroPCS business combination	15	193	110	355
Gains on disposal of spectrum licenses	(199)	(1)	(835)	(24)
Total operating expenses	8,257	7,336	24,207	22,579
Operating income	989	513	2,860	1,227
Other income (expense)				
Interest expense	(376)	(262)	(1,083)	(780)
Interest expense to affiliates	(76)	(121)	(248)	(277)
Interest income	62	109	198	335
Other expense, net	(1)	(1)	(6)	(8)
Total other expense, net	(391)	(275)	(1,139)	(730)
Income before income taxes	598	238	1,721	497
Income tax expense	(232)	(100)	(651)	(61)
Net income	366	138	1,070	436
Dividends on preferred stock	(13)	(13)	(41)	(41)
Net income attributable to common stockholders	\$353	\$ 125	\$1,029	\$ 395
Net income	\$366	\$ 138	\$1,070	\$ 436
Other comprehensive income (loss), net of tax				
Unrealized gain (loss) on available-for-sale securities, net of tax effect of \$1, \$(1), \$1 and \$(2)	2	(2)	2	(2)
Other comprehensive income (loss)	2	(2)	2	(2)
Total comprehensive income	\$368	\$ 136	\$1,072	\$ 434
Earnings per share				
Basic	\$0.43	\$ 0.15	\$1.25	\$ 0.49
Diluted	\$0.42	\$ 0.15	\$1.24	\$ 0.48
Weighted average shares outstanding				
Basic	822,998,697	817,069,272	821,626,675	811,783,620
Diluted	832,257,812	822,017,220	831,241,032	820,514,748

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

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Condensed Consolidated Statements of Cash Flows
(Unaudited)

(in millions)	Three Months Ended		Nine Months Ended	
	September 30, 2016	2015	September 30, 2016	2015
Operating activities				
Net income	\$366	\$138	\$1,070	\$436
Adjustments to reconcile net income to net cash provided by operating activities				
Depreciation and amortization	1,568	1,157	4,695	3,319
Stock-based compensation expense	59	42	171	153
Deferred income tax expense	219	134	623	82
Bad debt expense	118	172	358	384
Losses from sales of receivables	59	26	157	139
Deferred rent expense	32	43	97	131
Gains on disposal of spectrum licenses	(199)	(1)	(835)	(24)
Changes in operating assets and liabilities				
Accounts receivable	(155)	(48)	(462)	(156)
Equipment installment plan receivables	104	229	556	(350)
Inventories	301	(915)	(497)	(973)
Deferred purchase price from sales of receivables	(16)	(34)	(199)	(46)
Other current and long-term assets	(98)	(184)	31	(58)
Accounts payable and accrued liabilities	(731)	582	(1,568)	36
Other current and long-term liabilities	112	92	326	2
Other, net	1	98	10	106
Net cash provided by operating activities	1,740	1,531	4,533	3,181
Investing activities				
Purchases of property and equipment	(1,159)	(1,120)	(3,843)	(3,293)
Purchases of spectrum licenses and other intangible assets, including deposits	(705)	(94)	(3,544)	(1,938)
Sales of short-term investments	—	—	2,998	—
Other, net	5	5	3	(7)
Net cash used in investing activities	(1,859)	(1,209)	(4,386)	(5,238)
Financing activities				
Proceeds from issuance of long-term debt	—	—	997	—
Repayments of capital lease obligations	(54)	(13)	(133)	(24)
Repayments of short-term debt for purchases of inventory, property and equipment, net	—	(315)	(150)	(563)
Repayments of long-term debt	(5)	—	(15)	—
Tax withholdings on share-based awards	(3)	(2)	(52)	(100)
Dividends on preferred stock	(13)	(13)	(41)	(41)
Other, net	8	12	17	103
Net cash provided by (used in) financing activities	(67)	(331)	623	(625)
Change in cash and cash equivalents	(186)	(9)	770	(2,682)
Cash and cash equivalents				
Beginning of period	5,538	2,642	4,582	5,315
End of period	\$5,352	\$2,633	\$5,352	\$2,633
Supplemental disclosure of cash flow information				
Interest payments, net of amounts capitalized	\$478	\$348	\$1,292	\$969

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Income tax payments	4	8	23	41
Changes in accounts payable for purchases of property and equipment	(79) 267	(307) 94
Leased devices transferred from inventory to property and equipment	234	854	1,175	854
Returned leased devices transferred from property and equipment to inventory	(186) (32) (422) (32
Issuance of short-term debt for financing of property and equipment	—	—	150	500
Assets acquired under capital lease obligations	384	119	679	309

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

Note 1 – Basis of Presentation

The unaudited condensed consolidated financial statements of T-Mobile US, Inc. (“T-Mobile,” “we,” “our,” “us” 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 relating to the adoption of Accounting Standards Update (“ASU”) 2015-03 “Simplifying the Presentation of Debt Issuance Costs,” have been reclassified to conform to the current presentation. See “Accounting Pronouncements Adopted During the Current Year” below.

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.

Revenue Recognition

We offer products and services to customers through bundled arrangements, which may be comprised of multiple contracts entered into with a customer at or near the same time. We assess such agreements as a single bundled arrangement that may involve multiple deliverables, which include wireless devices, wireless services or a combination thereof. For multiple deliverable arrangements revenue is allocated between the separate units of accounting based on such components’ relative selling prices on a standalone basis.

In June 2016, we introduced #GetThanked, which offers eligible customers the following free promotional items as part of their T-Mobile service:

T-Mobile stock - A share of T-Mobile stock to eligible new (through December 31, 2016) or existing (as of June 6, 2016) customers. Shares issued to customers under this promotion are purchased by an independent third-party broker in the open market on behalf of eligible customers. The associated cost, which is paid by T-Mobile, is recorded as a reduction of service revenue for existing customers and as a reduction of equipment revenue for new customers in our Condensed Consolidated Statements of Comprehensive Income. Through December 31, 2016, existing eligible customers can also receive a share of T-Mobile stock (subject to a maximum of 100 shares in a calendar year) for every new active account they refer, purchased by the third-party broker and paid for by T-Mobile. The cost of shares issued under this refer-a-friend program are included in Selling, general and administrative expense in our Condensed Consolidated Statements of Comprehensive Income;

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Weekly surprise items - Each Tuesday, eligible customers who download the T-Mobile Tuesday app are informed about and can redeem products and services offered by participating business partners. The associated cost is included in Selling, general and administrative expense in our Condensed Consolidated Statements of Comprehensive Income; and

In-flight Wi-Fi - A full hour of in-flight Wi-Fi free to eligible customers on their smartphone on all Gogo-equipped domestic flights. The associated cost, which is paid by T-Mobile, is included in Cost of services in our Condensed Consolidated Statements of Comprehensive Income.

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Accounting Pronouncements Adopted During the Current Year

In April 2015, the Financial Accounting Standards Board (the “FASB”) issued 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 - On a prospective basis, all excess tax benefits and deficiencies related to share-based payments will be recognized through Income tax expense. Prior period amounts were not adjusted; and

Condensed Consolidated Statements of Cash Flows - On a prospective basis, 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”), and has since modified the standard with ASU 2015-14, “Revenue From Contracts With Customers (Topic 606): Deferral of the Effective Date,” ASU 2016-08, “Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net),” ASU 2016-10, “Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing” and ASU 2016-12, “Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients.” 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. We plan to adopt the standard when it becomes effective beginning January 1, 2018; however, early adoption with the original effective date for periods beginning January 1, 2017 is permitted. Under ASU 2014-09, two adoption methods are allowed. Under one method, a company may apply the rules to 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 on our consolidated financial statements and believe the standard will result in 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. The income statement recognition is similar to existing lease accounting and

is based on lease classification. The standard requires lessees and lessors to classify most leases using principles similar to existing lease accounting, but eliminates the “bright line” classification tests. 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 and the timing of adoption but expect that it will have a material impact on our consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, “Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments.” The standard requires a financial asset (or a group of financial assets) measured at amortized cost basis to be presented at the net amount expected to be collected. The measurement of expected credit losses is based on relevant information about past events, including historical experience, current conditions and reasonable and supportable

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forecasts that affect the collectibility of the reported amount. The standard will become effective for us beginning January 1, 2020 and will require a cumulative-effect adjustment to Accumulated deficit as of the beginning of the first reporting period in which the guidance is effective (that is, a modified-retrospective approach). Early adoption is permitted for us as of January 1, 2019. We are currently evaluating the impact this guidance will have on our consolidated financial statements and the timing of adoption.

In August 2016, the FASB issued ASU 2016-15, "Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments." The standard provides guidance on how certain cash receipts and payments are presented and classified in the statement of cash flows, including beneficial interests in securitization, which would impact the presentation of the deferred purchase price from sales of receivables. The standard is intended to reduce current diversity in practice. The standard will become effective for us beginning January 1, 2018 and will require a retrospective approach. Early adoption is permitted, including adoption in an interim period. We are currently evaluating the impact this guidance will have on our consolidated financial statements and the timing of adoption.

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	2,914
Spectrum licenses transferred to held for sale	(323)
Costs to clear spectrum	44
Balance at September 30, 2016	\$26,590

We had the following spectrum license transactions during the nine months ended September 30, 2016:

We closed on the agreement with AT&T Inc. for the acquisition and exchange of certain spectrum licenses. Upon closing of the transaction during the first quarter of 2016, 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.

We closed on agreements with multiple third parties for the purchase and exchange of certain spectrum licenses for \$1.3 billion in cash. Upon closing of the transactions during the nine months ended September 30, 2016, we recorded spectrum licenses received at their estimated fair values totaling approximately \$1.7 billion and recognized gains of \$199 million included in Gains on disposal of spectrum licenses in our Condensed Consolidated Statements of Comprehensive Income.

We entered into an agreement with a third party for the exchange of certain spectrum licenses, which is expected to close in the first quarter of 2017. Our spectrum licenses to be transferred as part of the exchange transaction 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 \$86 million as of September 30, 2016.

We entered into an agreement with a third party for the purchase of certain spectrum licenses covering approximately 11 million people for approximately \$420 million. The transaction is expected to close in the fourth 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, under which T-Mobile USA may, at its option, 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. If T-Mobile USA does not elect to issue the 5.300% Senior Notes on or prior to November 30, 2016, the commitment under the purchase agreement terminates and T-Mobile USA must reimburse Deutsche Telekom for the cost of its hedging arrangements (if any) related to the transaction. As

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of September 30, 2016, if the commitment under this purchase agreement was terminated, the reimbursement amount due to Deutsche Telekom would not be significant.

In April 2016, T-Mobile USA and certain of its affiliates, as guarantors, (i) issued \$1.0 billion of public 6.000% Senior Notes due 2024, (ii) entered into a purchase agreement with Deutsche Telekom, under which T-Mobile USA may, at its option, issue and sell to Deutsche Telekom up to \$1.35 billion of 6.000% Senior Notes due 2024 and (iii) entered into another purchase agreement with Deutsche Telekom, under which T-Mobile USA may, at its option, issue and sell up to an additional \$650 million of 6.000% Senior Notes due 2024.

The purchase price for the 6.000% Senior Notes that may be issued under the \$1.35 billion purchase agreement will be approximately 103.316% of the outstanding principal balance of the notes issued. If T-Mobile USA does not elect to issue the 6.000% Senior Notes under the \$1.35 billion purchase agreement on or prior to November 5, 2016 or elects to issue less than \$1.35 billion of 6.000% Senior Notes, any unused portion of the commitment under the purchase agreement terminates and T-Mobile USA must reimburse Deutsche Telekom for the cost of its hedging arrangements (if any) related to the transaction. As of September 30, 2016, if the commitment under this purchase agreement was terminated, the reimbursement amount due to Deutsche Telekom would not be significant.

The purchase price for the 6.000% Senior Notes that may be issued under the \$650 million purchase agreement will be approximately 104.047% of the outstanding principal balance of the notes issued. If T-Mobile USA does not elect to issue the 6.000% Senior Notes under the \$650 million purchase agreement on or prior to November 5, 2016 or elects to issue less than \$650 million of 6.000% Senior Notes, any unused portion of the commitment under the purchase agreement terminates and T-Mobile USA must reimburse Deutsche Telekom for the cost of its hedging arrangements (if any) related to the transaction. As of September 30, 2016, if the commitment under this purchase agreement was terminated, the reimbursement amount due to Deutsche Telekom would not be significant.

In addition to the new debt issued, and purchase commitments with Deutsche Telekom, the supplemental indentures governing the Senior Reset Notes to affiliates provided for the adjustment of the interest rates on such Notes at various reset dates to rates determined in accordance with the applicable supplemental indenture. In April 2016, the interest rate on the \$600 million of Senior Reset Notes to affiliates due 2023 was adjusted from 5.950% to 9.332%.

Other

In June 2016, a refundable deposit of \$2.2 billion was made to a third party in connection with a potential asset purchase. The deposit is included in Asset purchase deposit in our Condensed Consolidated Balance Sheets.

During the quarter ended and subsequent to September 30, 2016, a handset Original Equipment Manufacturer (“OEM”) announced recalls on certain of its smartphone devices. As a result, we recorded no revenue associated with the device sales to customers and impaired the devices to their net realizable value. The OEM has agreed to reimburse T-Mobile, as such, we have recorded an amount due from the OEM as an offset to the loss recorded in Cost of equipment sales in our Condensed Consolidated Statements of Comprehensive Income and a reduction to Accounts payable and accrued liabilities in our Condensed Consolidated Balance Sheets.

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 (the “service receivable sale arrangement”). The service receivable sale arrangement provided funding of \$750 million as of September 30, 2016 and December 31, 2015. 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.

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In connection with the service receivable 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 service receivable sale 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 service receivable sale 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:

(in millions)	September 30, 2016	December 31, 2015
Other current assets	\$ 167	\$ 206
Other current liabilities	57	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 maximum funding commitment of \$800 million (the “EIP sale arrangement”). In June 2016, the EIP sale arrangement was amended to increase the maximum funding commitment to \$1.3 billion with a scheduled expiration date in November 2017. As of September 30, 2016 and December 31, 2015, the EIP sale arrangement provided funding of \$1.2 billion and \$800 million, respectively. 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 EIP sale arrangement, we formed a wholly-owned subsidiary, which qualifies as a bankruptcy remote entity (“EIP BRE”). Pursuant to the EIP sale 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 EIP sale 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.

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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)	September 30, December 31,	
	2016	2015
Other current assets	\$ 350	\$ 164
Other assets	73	44
Accounts payable and accrued liabilities	—	14
Other long-term liabilities	5	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. The fair value of the deferred purchase price is determined based on a discounted cash flow model which uses primarily unobservable inputs (Level 3 inputs), including customer default rates. As of September 30, 2016 and December 31, 2015, our deferred purchase price related to the sales of service receivables and EIP receivables was \$588 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)	September 30, December 31,	
	2016	2015
Derecognized net service receivables and EIP receivables	\$ 2,379	\$ 1,850
Other current assets	517	370
of which, deferred purchase price	515	345
Other long-term assets	73	44
of which, deferred purchase price	73	44
Accounts payable and accrued liabilities	—	14
Other current liabilities	57	73
Other long-term liabilities	5	3
Net cash proceeds since inception	1,863	1,494
Of which:		
Net cash proceeds during the year-to-date period	369	884

Net cash proceeds funded by reinvested collections	1,494	610
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We recognized losses from sales of receivables of \$59 million and \$26 million for the three months ended September 30, 2016 and 2015, respectively, and \$157 million and \$139 million for the nine months ended September 30, 2016 and 2015, respectively. These losses from sales of receivables were recognized in Selling, general and administrative expense in our Condensed Consolidated Statements of Comprehensive Income. Losses from sales of receivables include adjustments to the receivables' fair values and changes in fair value of the deferred purchase price.

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Continuing Involvement

Pursuant to the sale arrangements described above, we have continuing involvement with the service receivables and EIP receivables we sell 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 sale 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 sale arrangements. Our maximum exposure to loss related to the involvement with the service receivables and EIP receivables sold under the sale arrangements was \$1.1 billion as of September 30, 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 sale 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.

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)	September 30, 2016	December 31, 2015
EIP receivables, gross	\$ 2,795	\$ 3,558
Unamortized imputed discount	(154)	(185)
EIP receivables, net of unamortized imputed discount	2,641	3,373
Allowance for credit losses	(133)	(148)
EIP receivables, net	\$ 2,508	\$ 3,225

Classified on the balance sheet as:

Equipment installment plan receivables, net	\$ 1,669	\$ 2,378
Equipment installment plan receivables due after one year, net	839	847
EIP receivables, net	\$ 2,508	\$ 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 may be 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.

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

(in millions)	September 30, 2016			December 31, 2015		
	Prime	Subprime	Total	Prime	Subprime	Total
Unbilled	\$1,084	\$ 1,501	\$2,585	\$1,593	\$ 1,698	\$3,291
Billed – Current	54	80	134	77	91	168
Billed – Past Due	26	50	76	37	62	99
EIP receivables, gross	\$1,164	\$ 1,631	\$2,795	\$1,707	\$ 1,851	\$3,558

The increase in subprime EIP receivables as a percentage of total EIP receivables is primarily due to the EIP sale arrangement funding increase during the nine months ended September 30, 2016.

Activity for the nine months ended September 30, 2016 and 2015 in the unamortized imputed discount and allowance for credit losses balances for the EIP receivables was as follows:

(in millions)	September 30, 2016	September 30, 2015
Imputed discount and allowance for credit losses, beginning of period	\$ 333	\$ 448
Bad debt expense	185	269
Write-offs, net of recoveries	(201)	(248)
Change in imputed discount on short-term and long-term EIP receivables	103	(47)
Impacts from sales of EIP receivables	(133)	—
Imputed discount and allowance for credit losses, end of period	\$ 287	\$ 422

The EIP receivables had weighted average effective imputed interest rates of 9.2% and 8.8% as of September 30, 2016 and December 31, 2015, respectively.

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)	September 30, 2016		December 31, 2015	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets:				
Short-term investments	\$—	\$—	\$2,998	\$2,998
Liabilities:				
Senior Notes to third parties	\$18,600	\$19,805	\$17,600	\$18,098
Senior Reset Notes to affiliates	5,600	5,930	5,600	6,072
Senior Secured Term Loans	1,985	2,014	2,000	1,990

Short-term Investments

The fair value of our short-term investments as of December 31, 2015, which consisted 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. We did not have any short-term investments as of September 30, 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.

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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 September 30, 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 and nine months ended September 30, 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 estimated fair value of the used handset which is returned. Accordingly, our guarantee liabilities were classified as Level 3 in the fair value hierarchy. 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 \$140 million and \$163 million as of September 30, 2016 and December 31, 2015, respectively, and are included in Other current liabilities in our Condensed Consolidated Balance Sheets.

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 EIP receivables that have been sold, was \$2.0 billion as of September 30, 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 Per Share

Basic earnings per share amounts are computed by dividing net income, 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 for potentially dilutive share equivalents outstanding.

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

(in millions, except shares and per share amounts)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net income	\$366	\$ 138	\$1,070	\$ 436
Less: Dividends on mandatory convertible preferred stock	(13)	(13)	(41)	(41)
Net income attributable to common stockholders - basic and diluted	\$353	\$ 125	\$1,029	\$ 395
Weighted average shares outstanding - basic	822,998,817	817,069,272	821,626,671	815,783,620
Effect of dilutive securities:				
Outstanding stock options and unvested stock awards	9,259,162	9,947,948	9,614,353	8,731,128
Weighted average shares outstanding - diluted	832,257,979	827,017,220	831,241,024	824,514,748

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Earnings per share - basic	\$0.43	\$ 0.15	\$1.25	\$ 0.49
Earnings per share - diluted	\$0.42	\$ 0.15	\$1.24	\$ 0.48

Potentially dilutive securities:

Outstanding stock options and unvested stock awards	278,675	576,408	287,375	1,289,514
Mandatory convertible preferred stock	32,237,266	32,237,266	32,237,266	32,237,266

Potentially dilutive securities were not included in the computation of diluted earnings per share if to do so would have been anti-dilutive.

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Note 7 – Commitments and Contingencies

Commitments

Operating Leases and Purchase Commitments

Future minimum payments for non-cancelable operating leases and purchase commitments are summarized below:

(in millions)	Operating Purchase	
	Leases	Commitments
Year Ending September 30,		
2017	\$ 2,429	\$ 3,360
2018	2,246	957
2019	2,064	857
2020	1,898	719
2021	1,579	627
Thereafter	5,345	1,116
Total	\$ 15,561	\$ 7,636

In May 2016, we entered into a purchase agreement with a third party for the acquisition of certain spectrum licenses for \$420 million. See Note 2 – Significant Transactions for further information.

Related-Party Commitments

In March 2016, T-Mobile USA entered into a purchase agreement with Deutsche Telekom under which T-Mobile USA may, at its option, 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.

In April 2016, T-Mobile USA entered into a purchase agreement with Deutsche Telekom under which T-Mobile USA may, at its option, issue and sell to Deutsche Telekom up to \$1.35 billion of 6.000% Senior Notes due 2024. The purchase price for the 6.000% Senior Notes to be issued under this purchase agreement will be approximately 103.316% of the outstanding principal balance of the notes issued.

In April 2016, T-Mobile USA entered into a purchase agreement with Deutsche Telekom under which T-Mobile USA may, at its option, issue and sell to Deutsche Telekom up to \$650 million of 6.000% Senior Notes due 2024. The purchase price for the 6.000% Senior Notes will be approximately 104.047% of the outstanding principal balance of the notes issued.

See Note 2 – Significant Transactions - Debt 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. 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

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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 federal court in Nebraska. After a jury trial resulted in a defense verdict, the court entered judgment in favor of T-Mobile. Both parties have appealed. Absent a significant adverse change in the status of the case, the Company 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 – Income Taxes

Income tax expense was \$232 million and \$100 million for the three months ended September 30, 2016 and 2015, respectively, and \$651 million and \$61 million for the nine months ended September 30, 2016 and 2015, respectively. The effective tax rate was 38.8% and 42.0% for the three months ended September 30, 2016 and 2015, respectively, and 37.8% and 12.3% for the nine months ended September 30, 2016 and 2015, respectively. The lower effective income tax rate for the three months ended September 30, 2016 compared to the same period in 2015 resulted primarily from the increase in income before income taxes and the resulting decrease in the impact of unfavorable tax items. The higher effective income tax rate for the nine months ended September 30, 2016 compared to the same period in 2015 resulted from income tax benefits for discrete income tax items recognized in 2015 that did not impact 2016, including certain changes in state and local income tax laws and the recognition of certain federal tax credits. The increase in the effective income tax rate for the nine months ended September 30, 2016 was partially offset by the recognition of \$24 million of excess tax benefits related to share-based payments in Income tax expense resulting from the adoption of ASU 2016-09 as of January 1, 2016. See Note 1 – Basis of Presentation 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").

In April 2016, T-Mobile USA and certain of its affiliates, as guarantors, issued \$1.0 billion of public 6.000% Senior Notes due 2024.

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 September 30, 2016 and December 31, 2015 and for the three and nine months ended September 30, 2016 and 2015.

Table of ContentsCondensed Consolidating Balance Sheet Information
September 30, 2016

(in millions)	Parent	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating and Eliminating Adjustments	Consolidated
Assets						
Current assets						
Cash and cash equivalents	\$366	\$2,599	\$ 2,365	\$ 22	\$ —	\$ 5,352
Accounts receivable, net	—	—	1,653	232	—	1,885
Equipment installment plan receivables, net	—	—	1,669	—	—	1,669
Accounts receivable from affiliates	—	6	40	—	—	46
Inventories	—	—	1,039	—	—	1,039
Asset purchase deposit	—	—	2,203	—	—	2,203
Other current assets	—	—	839	497	—	1,336
Total current assets	366	2,605	9,808	751	—	13,530
Property and equipment, net ⁽¹⁾	—	—	20,179	395	—	20,574
Goodwill	—	—	1,683	—	—	1,683
Spectrum licenses	—	—	26,590	—	—	26,590
Other intangible assets, net	—	—	431	—	—	431
Investments in subsidiaries, net	17,293	34,387	—	—	(51,680)	—
Intercompany receivables	194	7,282	—	—	(7,476)	—
Equipment installment plan receivables due after one year, net	—	—	839	—	—	839
Other assets	—	6	562	246	(189)	625
Total assets	\$17,853	\$44,280	\$ 60,092	\$ 1,392	\$ (59,345)	\$ 64,272
Liabilities and Stockholders' Equity						
Current liabilities						
Accounts payable and accrued liabilities	\$—	\$303	\$ 5,588	\$ 255	\$ —	\$ 6,146
Payables to affiliates	—	178	135	—	—	313
Short-term debt	—	20	305	—	—	325
Deferred revenue	—	—	980	—	—	980
Other current liabilities	—	—	280	75	—	355
Total current liabilities	—	501	7,288	330	—	8,119
Long-term debt	—	20,755	1,070	—	—	21,825
Long-term debt to affiliates	—	5,600	—	—	—	5,600
Tower obligations ⁽¹⁾	—	—	405	2,224	—	2,629
Deferred tax liabilities	—	—	4,837	—	(189)	4,648
Deferred rent expense	—	—	2,591	—	—	2,591
Negative carrying value of subsidiaries, net	—	—	537	—	(537)	—
Intercompany payables	—	—	7,286	190	(7,476)	—
Other long-term liabilities	—	131	872	4	—	1,007
Total long-term liabilities	—	26,486	17,598	2,418	(8,202)	38,300
Total stockholders' equity	17,853	17,293	35,206	(1,356)	(51,143)	17,853
Total liabilities and stockholders' equity	\$17,853	\$44,280	\$ 60,092	\$ 1,392	\$ (59,345)	\$ 64,272

Assets and liabilities for Non-Guarantor Subsidiaries are primarily included in VIEs related to the 2012 Tower (1) Transaction. See Note 9 – Tower Obligations included in the Annual Report on Form 10-K for the year ended December 31, 2015.

Table of ContentsCondensed Consolidating Balance Sheet Information
December 31, 2015

(in millions)	Parent	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating and Eliminating Adjustments	Consolidated
Assets						
Current assets						
Cash and cash equivalents	\$378	\$1,767	\$ 2,364	\$ 73	\$ —	\$ 4,582
Short-term investments	—	1,999	999	—	—	2,998
Accounts receivable, net	—	—	1,574	214	—	1,788
Equipment installment plan receivables, net	—	—	2,378	—	—	2,378
Accounts receivable from affiliates	—	—	36	—	—	36
Inventories	—	—	1,295	—	—	1,295
Other current assets	—	—	1,413	400	—	1,813
Total current assets	378	3,766	10,059	687	—	14,890
Property and equipment, net ⁽¹⁾	—	—	19,546	454	—	20,000
Goodwill	—	—	1,683	—	—	1,683
Spectrum licenses	—	—	23,955	—	—	23,955
Other intangible assets, net	—	—	594	—	—	594
Investments in subsidiaries, net	16,184	32,280	—	—	(48,464)	—
Intercompany receivables	—	6,130	—	—	(6,130)	—
Equipment installment plan receivables due after one year, net	—	—	847	—	—	847
Other assets	—	5	387	219	(167)	444
Total assets	\$16,562	\$42,181	\$ 57,071	\$ 1,360	\$ (54,761)	\$ 62,413
Liabilities and Stockholders' Equity						
Current liabilities						
Accounts payable and accrued liabilities	\$—	\$368	\$ 7,496	\$ 220	\$ —	\$ 8,084
Payables to affiliates	—	70	65	—	—	135
Short-term debt	—	20	162	—	—	182
Deferred revenue	—	—	717	—	—	717
Other current liabilities	—	—	327	83	—	410
Total current liabilities	—	458	8,767	303	—	9,528
Long-term debt	—	19,797	664	—	—	20,461
Long-term debt to affiliates	—	5,600	—	—	—	5,600
Tower obligations ⁽¹⁾	—	—	411	2,247	—	2,658
Deferred tax liabilities	—	—	4,228	—	(167)	4,061
Deferred rent expense	—	—	2,481	—	—	2,481
Negative carrying value of subsidiaries, net	—	—	628	—	(628)	—
Intercompany payables	5	—	5,959	166	(6,130)	—
Other long-term liabilities	—	142	922	3	—	1,067
Total long-term liabilities	5	25,539	15,293	2,416	(6,925)	36,328
Total stockholders' equity	16,557	16,184	33,011	(1,359)	(47,836)	16,557
Total liabilities and stockholders' equity	\$16,562	\$42,181	\$ 57,071	\$ 1,360	\$ (54,761)	\$ 62,413

Assets and liabilities for Non-Guarantor Subsidiaries are primarily included in VIEs related to the 2012 Tower (1) Transaction. See Note 9 – Tower Obligations included in the Annual Report on Form 10-K for the year ended December 31, 2015.

Table of ContentsCondensed Consolidating Statement of Comprehensive Income Information
Three Months Ended September 30, 2016

(in millions)	Parent	Issuer	Guarantor Subsidiaries	Non-Guarant Subsidiaries	Consolidating and Eliminating Adjustments	Consolidated
Revenues						
Service revenues	\$—	\$—	\$ 6,822	\$ 520	\$ (209)	\$ 7,133
Equipment revenues	—	—	2,049	—	(101)	1,948
Other revenues	—	—	121	48	(4)	165
Total revenues	—	—	8,992	568	(314)	9,246
Operating expenses						
Cost of services, exclusive of depreciation and amortization shown separately below	—	—	1,430	6	—	1,436
Cost of equipment sales	—	—	2,340	300	(101)	2,539
Selling, general and administrative	—	—	2,884	227	(213)	2,898
Depreciation and amortization	—	—	1,549	19	—	1,568
Cost of MetroPCS business combination	—	—	15	—	—	15
Gains on disposal of spectrum licenses	—	—	(199)	—	—	(199)
Total operating expenses	—	—	8,019	552	(314)	8,257
Operating income	—	—	973	16	—	989
Other income (expense)						
Interest expense	—	(303)	(26)	(47)	—	(376)
Interest expense to affiliates	—	(76)	—	—	—	(76)
Interest income	—	7	55	—	—	62
Other expense, net	—	—	(1)	—	—	(1)
Total other income (expense), net	—	(372)	28	(47)	—	(391)
Income (loss) before income taxes	—	(372)	1,001	(31)	—	598
Income tax (expense) benefit	—	—	(242)	10	—	(232)
Earnings (loss) of subsidiaries	366	738	(4)	—	(1,100)	—
Net income (loss)	366	366	755	(21)	(1,100)	366
Dividends on preferred stock	(13)	—	—	—	—	(13)
Net income (loss) attributable to common stockholders	\$ 353	\$ 366	\$ 755	\$ (21)	\$ (1,100)	\$ 353
Net Income (loss)	\$ 366	\$ 366	\$ 755	\$ (21)	\$ (1,100)	\$ 366
Other comprehensive income, net of tax						
Other comprehensive income, net of tax	2	2	2	2	(6)	2
Total comprehensive income (loss)	\$ 368	\$ 368	\$ 757	\$ (19)	\$ (1,106)	\$ 368

Table of ContentsCondensed Consolidating Statement of Comprehensive Income Information
Three Months Ended September 30, 2015

(in millions)	Parent	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating and Eliminating Adjustments	Consolidated
Revenues						
Service revenues	\$—	\$—	\$ 6,029	\$ 428	\$ (155)	\$ 6,302
Equipment revenues	—	—	1,546	—	(130)	1,416
Other revenues	—	—	92	42	(3)	131
Total revenues	—	—	7,667	470	(288)	7,849
Operating expenses						
Cost of services, exclusive of depreciation and amortization shown separately below	—	—	1,372	6	—	1,378
Cost of equipment sales	—	—	1,928	188	(131)	1,985
Selling, general and administrative	—	—	2,601	180	(157)	2,624
Depreciation and amortization	—	—	1,137	20	—	1,157
Cost of MetroPCS business combination	—	—	193	—	—	193
Gains on disposal of spectrum licenses	—	—	(1)	—	—	(1)
Total operating expenses	—	—	7,230	394	(288)	7,336
Operating income	—	—	437	76	—	513
Other income (expense)						
Interest expense	—	(205)	(10)	(47)	—	(262)
Interest expense to affiliates	—	(121)	—	—	—	(121)
Interest income	—	—	109	—	—	109
Other expense, net	—	(1)	—	—	—	(1)
Total other income (expense), net	—	(327)	99	(47)	—	(275)
Income (loss) before income taxes	—	(327)	536	29	—	238
Income tax expense	—	—	(82)	(18)	—	(100)
Earnings (loss) of subsidiaries	138	465	(10)	—	(593)	—
Net income	138	138	444	11	(593)	138
Dividends on preferred stock	(13)	—	—	—	—	(13)
Net income attributable to common stockholders	\$125	\$138	\$ 444	\$ 11	\$ (593)	\$ 125
Net income	\$138	\$138	\$ 444	\$ 11	\$ (593)	\$ 138
Other comprehensive loss, net of tax						
Other comprehensive loss, net of tax	(2)	(2)	(2)	—	4	(2)
Total comprehensive income	\$136	\$136	\$ 442	\$ 11	\$ (589)	\$ 136

Table of ContentsCondensed Consolidating Statement of Comprehensive Income Information
Nine Months Ended September 30, 2016

(in millions)	Parent	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating and Eliminating Adjustments	Consolidated
Revenues						
Service revenues	\$—	\$—	\$ 19,683	\$ 1,500	\$ (584)	\$ 20,599
Equipment revenues	—	—	6,328	—	(341)	5,987
Other revenues	—	—	349	145	(13)	481
Total revenues	—	—	26,360	1,645	(938)	27,067
Operating expenses						
Cost of services, exclusive of depreciation and amortization shown separately below	—	—	4,268	18	—	4,286
Cost of equipment sales	—	—	7,104	768	(340)	7,532
Selling, general and administrative	—	—	8,372	645	(598)	8,419
Depreciation and amortization	—	—	4,636	59	—	4,695
Cost of MetroPCS business combination	—	—	110	—	—	110
Gains on disposal of spectrum licenses	—	—	(835)	—	—	(835)
Total operating expenses	—	—	23,655	1,490	(938)	24,207
Operating income	—	—	2,705	155	—	2,860
Other income (expense)						
Interest expense	—	(881)	(61)	(141)	—	(1,083)
Interest expense to affiliates	—	(248)	—	—	—	(248)
Interest income	—	23	175	—	—	198
Other expense, net	—	—	(6)	—	—	(6)
Total other income (expense), net	—	(1,106)	108	(141)	—	(1,139)
Income (loss) before income taxes	—	(1,106)	2,813	14	—	1,721
Income tax expense	—	—	(643)	(8)	—	(651)
Earnings (loss) of subsidiaries	1,070	2,176	(15)	—	(3,231)	—
Net income	1,070	1,070	2,155	6	(3,231)	1,070
Dividends on preferred stock	(41)	—	—	—	—	(41)
Net income attributable to common stockholders	\$ 1,029	\$ 1,070	\$ 2,155	\$ 6	\$ (3,231)	\$ 1,029
Net Income						
Net Income	\$ 1,070	\$ 1,070	\$ 2,155	\$ 6	\$ (3,231)	\$ 1,070
Other comprehensive income, net of tax						
Other comprehensive income, net of tax	2	2	2	2	(6)	2
Total comprehensive income	\$ 1,072	\$ 1,072	\$ 2,157	\$ 8	\$ (3,237)	\$ 1,072

Table of ContentsCondensed Consolidating Statement of Comprehensive Income Information
Nine Months Ended September 30, 2015

(in millions)	Parent	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating and Eliminating Adjustments	Consolidated
Revenues						
Service revenues	\$—	\$—	\$ 17,470	\$ 1,227	\$ (432)	\$ 18,265
Equipment revenues	—	—	5,507	—	(325)	5,182
Other revenues	—	—	243	126	(10)	359
Total revenues	—	—	23,220	1,353	(767)	23,806
Operating expenses						
Cost of services, exclusive of depreciation and amortization shown separately below	—	—	4,152	18	—	4,170
Cost of equipment sales	—	—	7,120	531	(326)	7,325
Selling, general and administrative	—	—	7,347	528	(441)	7,434
Depreciation and amortization	—	—	3,256	63	—	3,319
Cost of MetroPCS business combination	—	—	355	—	—	355
Gains on disposal of spectrum licenses	—	—	(24)	—	—	(24)
Total operating expenses	—	—	22,206	1,140	(767)	22,579
Operating income	—	—	1,014	213	—	1,227
Other income (expense)						
Interest expense	—	(606)	(33)	(141)	—	(780)
Interest expense to affiliates	—	(277)	—	—	—	(277)
Interest income	—	—	335	—	—	335
Other income (expense), net	—	(9)	1	—	—	(8)
Total other income (expense), net	—	(892)	303	(141)	—	(730)
Income (loss) before income taxes	—	(892)	1,317	72	—	497
Income tax expense	—	—	(33)	(28)	—	(61)
Earnings (loss) of subsidiaries	436	1,328	(35)	—	(1,729)	—
Net income	436	436	1,249	44	(1,729)	436
Dividends on preferred stock	(41)	—	—	—	—	(41)
Net income attributable to common stockholders	\$ 395	\$ 436	\$ 1,249	\$ 44	\$ (1,729)	\$ 395
Net income	\$ 436	\$ 436	\$ 1,249	\$ 44	\$ (1,729)	\$ 436
Other comprehensive loss, net of tax						
Other comprehensive loss, net of tax	(2)	(2)	(2)	—	4	(2)
Total comprehensive income	\$ 434	\$ 434	\$ 1,247	\$ 44	\$ (1,725)	\$ 434

Table of ContentsCondensed Consolidating Statement of Cash Flows Information
Three Months Ended September 30, 2016

(in millions)	Parent	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating and Eliminating Adjustments	Consolidated
Operating activities						
Net cash provided by (used in) operating activities	\$1	\$(84)	\$ 1,850	\$ 8	\$ (35)	\$ 1,740
Investing activities						
Purchases of property and equipment	—	—	(1,159)	—	—	(1,159)
Purchases of spectrum licenses and other intangible assets, including deposits	—	—	(705)	—	—	(705)
Other, net	—	—	5	—	—	5
Net cash used in investing activities	—	—	(1,859)	—	—	(1,859)
Financing activities						
Repayments of capital lease obligations	—	—	(54)	—	—	(54)
Repayments of long-term debt	—	—	(5)	—	—	(5)
Tax withholdings on share-based awards	—	—	(3)	—	—	(3)
Intercompany dividend paid	—	—	—	(35)	35	—
Dividends on preferred stock	(13)	—	—	—	—	(13)
Other, net	11	—	(3)	—	—	8
Net cash used in financing activities	(2)	—	(65)	(35)	35	(67)
Change in cash and cash equivalents	(1)	(84)	(74)	(27)	—	(186)
Cash and cash equivalents						
Beginning of period	367	2,683	2,439	49	—	5,538
End of period	\$ 366	\$ 2,599	\$ 2,365	\$ 22	\$ —	\$ 5,352

Table of ContentsCondensed Consolidating Statement of Cash Flows Information
Three Months Ended September 30, 2015

(in millions)	Parent	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating and Eliminating Adjustments	Consolidated
Operating activities						
Net cash provided by operating activities	\$2	\$18	\$ 1,519	\$ 32	\$ (40)	\$ 1,531
Investing activities						
Purchases of property and equipment	—	—	(1,120)	—	—	(1,120)
Purchases of spectrum licenses and other intangible assets, including deposits	—	—	(94)	—	—	(94)
Other, net	—	—	5	—	—	5
Net cash used in investing activities	—	—	(1,209)	—	—	(1,209)
Financing activities						
Repayments of capital lease obligations	—	—	(13)	—	—	(13)
Repayments of short-term debt for purchases of inventory, property and equipment, net	—	—	(315)	—	—	(315)
Tax withholdings on share-based awards	—	—	(2)	—	—	(2)
Intercompany dividend paid	—	—	—	(40)	40	—
Dividends on preferred stock	(13)	—	—	—	—	(13)
Other, net	8	—	4	—	—	12
Net cash used in financing activities	(5)	—	(326)	(40)	40	(331)
Change in cash and cash equivalents	(3)	18	(16)	(8)	—	(9)
Cash and cash equivalents						
Beginning of period	393	870	1,316	63	—	2,642
End of period	\$390	\$888	\$ 1,300	\$ 55	\$ —	\$ 2,633

Table of ContentsCondensed Consolidating Statement of Cash Flows Information
Nine Months Ended September 30, 2016

(in millions)	Parent	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Eliminating Adjustments	Consolidated
Operating activities						
Net cash provided by (used in) operating activities	\$ 4	\$(2,165)	\$ 6,745	\$ 59	\$(110)	\$ 4,533
Investing activities						
Purchases of property and equipment	—	—	(3,843)	—	—	(3,843)
Purchases of spectrum licenses and other intangible assets, including deposits	—	—	(3,544)	—	—	(3,544)
Sales of short-term investments	—	2,000	998	—	—	2,998
Other, net	—	—	3	—	—	3
Net cash provided by (used in) investing activities	—	2,000	(6,386)	—	—	(4,386)
Financing activities						
Proceeds from issuance of long-term debt	—	997	—	—	—	997
Repayments of capital lease obligations	—	—	(133)	—	—	(133)
Repayments of short-term debt for purchases of inventory, property and equipment, net	—	—	(150)	—	—	(150)
Repayments of long-term debt	—	—	(15)	—	—	(15)
Tax withholdings on share-based awards	—	—	(52)	—	—	—