

T-Mobile US, Inc.
Form 10-Q
August 01, 2018

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 June 30, 2018

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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth 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 ☐

Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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 July 27, 2018
Common Stock, \$0.00001 par value per share	847,231,474

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For the Quarter Ended June 30, 2018

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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 June 30, and per share amounts) 2018		December 31, 2017
Assets		
Current assets		
Cash and cash equivalents	\$ 215	\$ 1,219
Accounts receivable, net of allowances of \$70 and \$86	1,630	1,915
Equipment installment plan receivables, net	2,308	2,290
Accounts receivable from affiliates	11	22
Inventories	998	1,566
Other current assets	1,929	1,903
Total current assets	7,091	8,915
Property and equipment, net	22,375	22,196
Goodwill	1,901	1,683
Spectrum licenses	35,532	35,366
Other intangible assets, net	260	217
Equipment installment plan receivables due after one year, net	1,222	1,274
Other assets	1,311	912
Total assets	\$ 69,692	\$ 70,563
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities	\$ 6,686	\$ 8,528
Payables to affiliates	190	182
Short-term debt	1,004	1,612
Short-term debt to affiliates	320	—
Deferred revenue	722	779
Other current liabilities	359	414
Total current liabilities	9,281	11,515
Long-term debt	12,065	12,121
	14,581	14,586

Long-term debt to affiliates			
Tower obligations	2,574	2,590	
Deferred tax liabilities	4,087	3,537	
Deferred rent expense	2,746	2,720	
Other long-term liabilities	968	935	
Total long-term liabilities	37,021	36,489	
Commitments and contingencies (Note 14)			
Stockholders' equity			
Common Stock, par value \$0.00001 per share, 1,000,000,000 shares authorized; 848,736,488 and 860,861,998 shares issued, 847,225,746 and 859,406,651 shares outstanding	—	—	
Additional paid-in capital	37,786	38,629	
Treasury stock, at cost, 1,510,742 and 1,455,347 (7 shares issued)	()	(4)	
Accumulated other comprehensive income	—	8	
Accumulated deficit	(14,389)	(16,074)	
Total stockholders' equity	23,390	22,559	
Total liabilities and stockholders' equity	\$ 69,692	\$ 70,563	

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions, except share and per share amounts)	2018	2017	2018	2017
Revenues				
Branded postpaid revenues	\$5,164	\$ 4,820	\$10,234	\$ 9,545
Branded prepaid revenues	2,402	2,334	4,804	4,633
Wholesale revenues	275	234	541	504
Roaming and other service revenues	90	57	158	92
Total service revenues	7,931	7,445	15,737	14,774
Equipment revenues	2,325	2,506	4,678	4,549
Other revenues	315	262	611	503
Total revenues	10,571	10,213	21,026	19,826
Operating expenses				
Cost of services, exclusive of depreciation and amortization shown separately below	1,530	1,518	3,119	2,926
Cost of equipment sales	2,772	2,846	5,617	5,532
Selling, general and administrative	3,185	2,915	6,349	5,870
Depreciation and amortization	1,634	1,519	3,209	3,083
Gains on disposal of spectrum licenses	—	(1)	—	(38)
Total operating expense	9,121	8,797	18,294	17,373
Operating income	1,450	1,416	2,732	2,453
Other income (expense)				
Interest expense	(196)	(265)	(447)	(604)
Interest expense to affiliates	(128)	(131)	(294)	(231)
Interest income	6	6	12	13
Other expense, net	(64)	(92)	(54)	(90)
Total other expense, net	(382)	(482)	(783)	(912)
Income before income taxes	1,068	934	1,949	1,541
Income tax expense	(286)	(353)	(496)	(262)
Net income	782	581	1,453	1,279
Dividends on preferred stock	—	(14)	—	(28)
Net income attributable to common stockholders	\$782	\$ 567	\$1,453	\$ 1,251
Net income	\$782	\$ 581	\$1,453	\$ 1,279
Other comprehensive income, net of tax				
Unrealized gain on available-for-sale securities, net of tax effect of \$1, \$1, \$0 and \$2	3	1	—	2
Other comprehensive income	3	1	—	2
Total comprehensive income	\$785	\$ 582	\$1,453	\$ 1,281
Earnings per share				
Basic	\$0.92	\$ 0.68	\$1.71	\$ 1.51
Diluted	\$0.92	\$ 0.67	\$1.69	\$ 1.47
Weighted average shares outstanding				
Basic	847,660,488	880,971,528	851,420,682	829,356,255
Diluted	852,040,670	870,457,181	858,728,837	820,854,386

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions)	2018	2017	2018	2017
Operating activities				
Net income	\$782	\$581	\$1,453	\$1,279
Adjustments to reconcile net income to net cash provided by operating activities				
Depreciation and amortization	1,634	1,519	3,209	3,083
Stock-based compensation expense	112	72	209	139
Deferred income tax expense	272	345	478	248
Bad debt expense	75	82	129	175
Losses from sales of receivables	27	80	79	175
Deferred rent expense	7	20	11	40
Losses on redemption of debt	90	88	122	86
Gains on disposal of spectrum licenses	—	(1)	—	(38)
Changes in operating assets and liabilities				
Accounts receivable	(1,136)	(629)	(2,009)	(1,654)
Equipment installment plan receivables	(286)	(584)	(508)	(793)
Inventories	125	(185)	158	(141)
Other current and long-term assets	(248)	(135)	(116)	(146)
Accounts payable and accrued liabilities	(79)	56	(1,107)	(595)
Other current and long-term liabilities	(105)	(189)	(60)	(144)
Other, net	(9)	(14)	(17)	—
Net cash provided by operating activities	1,261	1,106	2,031	1,714
Investing activities				
Purchases of property and equipment, including capitalized interest of \$102, \$34, \$145 and \$82	(1,629)	(1,347)	(2,995)	(2,875)
Purchases of spectrum licenses and other intangible assets	(28)	(5,791)	(79)	(5,805)
Proceeds related to beneficial interests in securitization transactions	1,323	882	2,618	2,016
Acquisition of companies, net of cash acquired	(5)	—	(338)	—
Other, net	33	5	26	(3)
Net cash used in investing activities	(306)	(6,251)	(768)	(6,667)
Financing activities				
Proceeds from issuance of long-term debt	—	4,485	2,494	9,980
Payments of consent fees related to long-term debt	(38)	—	(38)	—
Proceeds from borrowing on revolving credit facility	2,070	1,855	4,240	1,855
Repayments of revolving credit facility	(2,195)	(1,175)	(3,920)	(1,175)
Repayments of capital lease obligations	(155)	(119)	(327)	(209)
Repayments of short-term debt for purchases of inventory, property and equipment, net	—	(292)	—	(292)
Repayments of long-term debt	(2,350)	(6,750)	(3,349)	(10,230)
Repurchases of common stock	(405)	—	(1,071)	—
Tax withholdings on share-based awards	(10)	(3)	(84)	(95)
Dividends on preferred stock	—	(14)	—	(28)
Cash payments for debt prepayment or debt extinguishment costs	(181)	(159)	(212)	(188)
Other, net	(3)	(3)	—	16

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Net cash used in financing activities	(3,267)	(2,175)	(2,267)	(366)
Change in cash and cash equivalents	(2,312)	(7,320)	(1,004)	(5,319)
Cash and cash equivalents				
Beginning of period	2,527	7,501	1,219	5,500
End of period	\$215	\$181	\$215	\$181
Supplemental disclosure of cash flow information				
Interest payments, net of amounts capitalized	\$559	\$727	\$937	\$1,222
Income tax payments	10	6	11	21
Noncash beneficial interest obtained in exchange for securitized receivables	1,205	992	2,333	2,008
Noncash investing and financing activities				
Changes in accounts payable for purchases of property and equipment	\$(386)	\$8	\$(750)	\$(317)
Leased devices transferred from inventory to property and equipment	280	270	584	513
Returned leased devices transferred from property and equipment to inventory	(90)	(273)	(172)	(470)
Issuance of short-term debt for financing of property and equipment	54	2	291	290
Assets acquired under capital lease obligations	176	313	318	597

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

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T-Mobile US, Inc.

Notes to the Condensed Consolidated Financial Statements
(Unaudited)

Note 1 – Summary of Significant Accounting Policies

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, 2017.

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 (Tower obligations are included in VIEs related to the 2012 Tower Transaction. See Note 8 - Tower Obligations included in our Annual Report on Form 10-K for the year ended December 31, 2017). Intercompany transactions and balances have been eliminated in consolidation.

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

Revenue

In May 2014, the Financial Accounting Standards Board (“FASB”) issued ASU 2014-09, “Revenue from Contracts with Customers (Topic 606),” and has since modified the standard with several ASUs (collectively, the “new revenue standard”). The new revenue 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 adopted the new revenue standard on January 1, 2018, using the modified retrospective method with the cumulative effect of initially applying the guidance recognized at the date of initial application. Comparative information has not been restated and continues to be reported under the standards in effect for those periods. We have applied the new revenue standard only to contracts not completed as of the date of initial application, referred to as open contracts. We have elected the practical expedient that permits an entity to reflect the aggregate effect of all of the modifications (on a contract-by-contract basis) that occurred before the date of initial application in determining the transaction price, identifying the satisfied and unsatisfied performance obligations, and allocating the transaction price to the performance obligations. Electing this practical expedient does not have a significant impact on our financial statements due to the short-term duration of most of our contracts and the nature of our contract modifications.

We have implemented significant new revenue accounting systems, processes and internal controls over revenue recognition to assist us in the application of the new revenue standard.

Revenue Recognition

We primarily generate our revenue from providing wireless services to customers and selling or leasing devices and accessories. Our contracts with customers may involve multiple performance obligations, which include wireless services, wireless devices or a combination thereof, and we allocate the transaction price between each performance obligation based on its relative standalone selling price.

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Significant Judgments

The most significant judgments affecting the amount and timing of revenue from contracts with our customers include the following items:

For transactions where we recognize a significant financing component, judgment is required to determine the discount rate. For equipment installment plan (“EIP”) sales, the discount rate used to adjust the transaction price primarily reflects current market interest rates and the estimated credit risk of the customer.

Our products are generally sold with a right of return, which is accounted for as variable consideration when estimating the amount of revenue to recognize. Expected device returns are estimated based on historical experience. Promotional bill credits offered to a customer on an equipment sale that are paid over time and are contingent on the customer maintaining a service contract may result in an extended service contract based on whether a substantive penalty is deemed to exist. Determining whether contingent bill credits result in a substantive termination penalty, and determining the term over which a substantive termination penalty exists, may require significant judgment.

For capitalized contract costs, determining the amortization period as well as assessing the indicators of impairment may require significant judgment.

The determination of the standalone selling price for contracts that involve more than one product or service (or performance obligation) may require significant judgment.

The identification of distinct performance obligations within our service plans may require significant judgment.

Wireless Services Revenue

We generate our wireless services revenues from providing access to, and usage of, our wireless communications network. Service revenues also include revenues earned for providing value added services to customers, such as handset insurance services. Service contracts are billed monthly either in advance or arrears, or are prepaid. Generally, service revenue is recognized as we satisfy our performance obligation to transfer service to our customers. We typically satisfy our stand-ready performance obligations, including unlimited wireless services, evenly over the contract term. For usage-based and prepaid wireless services, we satisfy our performance obligations when services are rendered.

Revenue for service contracts that we assess are not probable of collection is not recognized until the contract is completed and cash is received. Collectibility is re-assessed when there is a significant change in facts or circumstances. Our assessment of collectibility considers whether we may limit our exposure to credit risk through our right to stop transferring additional service in the event the customer is delinquent.

Consideration payable to a customer is treated as a reduction of the total transaction price, unless the payment is in exchange for a distinct good or service, such as certain commissions paid to dealers.

Revenue is recorded net of costs paid to another party for performance obligations where we arrange for the other party to transfer goods or services to the customer (i.e., when we are acting as an agent). For example, performance obligations relating to services provided by third-party content providers where T-Mobile neither controls a right to the content provider’s service nor controls the underlying service itself are presented net because T-Mobile is acting as an agent.

Federal Universal Service Fund and other regulatory fees are assessed by various governmental authorities in connection with the services we provide to our customers and are included in Cost of services. When we separately bill and collect these regulatory fees from customers, they are recorded in Total service revenues in our Condensed Consolidated Statements of Comprehensive Income.

We have made an accounting policy election to exclude from the measurement of the transaction price all taxes assessed by a governmental authority that are both imposed on and concurrent with a specific revenue-producing transaction and collected by T-Mobile from a customer (for example, sales, use, value added, and some excise taxes).

Equipment Revenues

We generate equipment revenues from the sale or lease of mobile communication devices and accessories. For performance obligations related to equipment contracts, we typically transfer control at a point in time when the device or accessory is delivered to, and accepted by, the customer or dealer. We have elected to account for shipping and handling activities that occur after control of the related good transfers as fulfillment activities instead of assessing such activities as performance

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obligations. We establish provisions for estimated device returns based on historical experience. Equipment sales not probable of collection are generally recorded as payments are received. Our assessment of collectibility considers contract terms such as down payments that reduce our exposure to credit risk.

We offer certain customers the option to pay for devices and accessories in installments using an EIP. Generally, we recognize as a reduction of the total transaction price the effects of a financing component in contracts where customers purchase their devices and accessories on an EIP with a term of more than one year, including those financing components that are not considered to be significant to the contract. However, we have elected the practical expedient to not recognize the effects of a significant financing component for contracts where we expect, at contract inception, that the period between the transfer of a performance obligation to a customer and the customer's payment for that performance obligation will be one year or less.

In addition, for customers who enroll in our Just Upgrade My Phone ("JUMP[®]") program, we recognize a liability based on the estimated fair value of the specified-price trade-in right guarantee. The fair value of the guarantee is deducted from the transaction price under the new revenue standard, and the remaining transaction price is allocated to other elements of the contract, including service and equipment performance obligations. See "Guarantee Liabilities" in Note 1 - Summary of Significant Accounting Policies included in our Annual Report on Form 10-K for the year ended December 31, 2017.

In 2015, we introduced JUMP! On Demand, which allows customers to lease a device and upgrade their leased wireless device for a new device up to one time per month. To date, all of our leased wireless devices are accounted for as operating leases and estimated contract consideration is allocated between lease elements and non-lease elements (such as service and equipment performance obligations) based on the relative standalone selling price of each performance obligation in the contract. Lease revenues are recorded as equipment revenues and recognized as earned on a straight-line basis over the lease term. Lease revenues on contracts not probable of collection are limited to the amount of payments received. See "Property and Equipment" in Note 1 - Summary of Significant Accounting Policies included in our Annual Report on Form 10-K for the year ended December 31, 2017.

Contract Balances

Generally, T-Mobile devices and service plans are available at standard prices, which are maintained on price lists and published on our website and/or within our retail stores.

For contracts that involve more than one product or service that are identified as separate performance obligations, the transaction price is allocated to the performance obligations based on their relative standalone selling prices. Standalone selling price is the price at which T-Mobile would sell the good or service separately to a customer and is most commonly evidenced by the price at which T-Mobile sells that good or service separately in similar circumstances and to similar customers.

A contract asset is recorded when revenue is recognized in advance of our right to receive consideration (i.e., we must perform additional services in order to receive consideration). Amounts are recorded as receivables when our right to consideration is unconditional. When consideration is received or we have an unconditional right to consideration in advance of delivery of goods or services, a contract liability is recorded. The transaction price can include non-refundable upfront fees, which are allocated to the identifiable performance obligations.

Contract assets are included in Other current assets and Other assets and contract liabilities are included in Deferred revenue in our Condensed Consolidated Balance Sheets.

Contract Modifications

Our service contracts allow customers to frequently modify their contracts without incurring penalties in many cases. Each time a contract is modified, we evaluate the change in scope or price of the contract to determine if the modification should be treated as a separate contract, as if there is a termination of the existing contract and creation of a new contract, or if the modification should be considered a change associated with the existing contract. We typically do not have significant impacts from contract modifications.

Contract Costs

We incur certain incremental costs to obtain a contract that we expect to recover, such as sales commissions. We record an asset when these incremental costs to obtain a contract are incurred and amortize them on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the asset relates.

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We amortize deferred costs incurred to obtain service contracts on a straight-line basis over the term of the initial contract and anticipated renewal contracts to which the costs relate. However, we have elected the practical expedient permitting expensing of costs to obtain a contract when the expected amortization period is one year or less.

Incremental costs to obtain equipment contracts (e.g., commissions paid on device and accessory sales) are recognized when the equipment is transferred to the customer.

Financial Statement Impacts of Applying the New Revenue Standard

The cumulative effect of initially applying the new revenue standard to all open contracts as of January 1, 2018 is as follows:

(in millions)	January 1, 2018		Beginning Balance, As Adjusted
	Beginning Balance	Cumulative Effect Adjustment	
Assets			
Other current assets	\$1,903	\$ 140	\$ 2,043
Other assets	912	150	1,062
Liabilities and Stockholders' Equity			
Deferred revenue	\$779	\$ 4	\$ 783
Deferred tax liabilities	3,537	73	3,610
Accumulated deficit	(16,074)	213	(15,861)

The most significant impacts upon adoption of the new revenue standard on January 1, 2018 include the following items:

A deferred contract cost asset of \$150 million was recorded at transition in Other assets in our Condensed Consolidated Balance Sheets for incremental contract acquisition costs paid on open contracts, which consists primarily of commissions paid to acquire branded postpaid service contracts; and
A contract asset of \$140 million was recorded at transition in Other current assets in our Condensed Consolidated Balance Sheets primarily for contracts with promotional bill credits offered to customers on equipment sales that are paid over time and are contingent on the customer maintaining a service contract.

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Financial statement results as reported under the new revenue standard as compared to the previous revenue standard for the three and six months ended and as of June 30, 2018 are as follows:

(in millions, except per share amounts)	Three Months Ended June 30, 2018			Six Months Ended June 30, 2018		
	Previous Revenue Standard	New Revenue Standard	Change	Previous Revenue Standard	New Revenue Standard	Change
Revenues						
Branded postpaid revenues	\$5,162	\$5,164	\$2	\$10,261	\$10,234	\$(27)
Branded prepaid revenues	2,404	2,402	(2)	4,807	4,804	(3)
Wholesale revenues	275	275	—	541	541	—
Roaming and other service revenues	90	90	—	158	158	—
Total service revenues	7,931	7,931	—	15,767	15,737	(30)
Equipment revenues	2,229	2,325	96	4,505	4,678	173
Other revenues	315	315	—	611	611	—
Total revenues	10,475	10,571	96	20,883	21,026	143
Operating expenses						
Cost of services, exclusive of depreciation and amortization shown separately below	1,504	1,530	26	3,093	3,119	26
Cost of equipment sales	2,779	2,772	(7)	5,624	5,617	(7)
Selling, general and administrative	3,192	3,185	(7)	6,404	6,349	(55)
Depreciation and amortization	1,634	1,634	—	3,209	3,209	—
Total operating expenses	9,109	9,121	12	18,330	18,294	(36)
Operating income	1,366	1,450	84	2,553	2,732	179
Total other expense, net	(382)	(382)	—	(783)	(783)	—
Income before income taxes	984	1,068	84	1,770	1,949	179
Income tax expense	(264)	(286)	(22)	(450)	(496)	(46)
Net income	\$720	\$782	\$62	\$1,320	\$1,453	\$133
Earnings per share						
Basic earnings per share	\$0.85	\$0.92	\$0.07	\$1.55	\$1.71	\$0.16
Diluted earnings per share	\$0.85	\$0.92	\$0.07	\$1.54	\$1.69	\$0.15

(in millions)	June 30, 2018		
	Previous Revenue Standard	New Revenue Standard	Change
Assets			
Other current assets	\$1,861	\$1,929	\$68
Other assets	901	1,311	410
Liabilities and Stockholders' Equity			
Deferred revenue	\$709	\$722	\$13
Deferred tax liabilities	3,968	4,087	119
Accumulated deficit	(14,735)	(14,389)	346

The most significant impacts to financial statement results as reported under the new revenue standard as compared to the previous revenue standard for the current reporting period are as follows:

Under the new revenue standard, certain commissions paid to dealers previously recognized as a reduction to Equipment revenues in our Condensed Consolidated Statements of Comprehensive Income are now recorded as

commission costs in Selling, general and administrative expense.

Contract costs capitalized for new contracts will accumulate in Other assets in our Condensed Consolidated Balance Sheets during 2018. As a result, there will be a net benefit to Operating income in our Condensed Consolidated Statements of Comprehensive Income during 2018 as capitalization of costs exceed amortization. As capitalized costs amortize into expense over time, the accretive benefit to Operating income anticipated in 2018 is expected to moderate in 2019 and normalize in 2020.

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For contracts with promotional bill credits that are contingent on the customer maintaining a service contract that result in an extended service contract, a contract asset is recorded when control of the equipment transfers to the customer and is subsequently amortized as a reduction to Total service revenues in our Condensed Consolidated Statements of Comprehensive Income over the extended contract term.

See disclosures related to Contracts with Customers under the new revenue standard in Note 11 - Revenue from Contracts with Customers.

Statement of Cash Flows

In August 2016, the FASB issued ASU 2016-15, “Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments” (the “new cash flow standard”). The new cash flow standard is intended to reduce current diversity in practice and provides guidance on how certain cash receipts and payments are presented and classified in the statement of cash flows. We adopted the new cash flow standard on January 1, 2018, which was the date it became effective for us. We have applied the new cash flow standard retrospectively to all periods presented. The new cash flow standard impacted the presentation of cash flows related to our beneficial interests in securitization transactions, which is the deferred purchase price, resulting in a reclassification of cash inflows from Operating activities to Investing activities of \$1.3 billion and \$882 million for the three months ended June 30, 2018 and 2017, respectively, and \$2.6 billion and \$2.0 billion for the six months ended June 30, 2018 and 2017, respectively, in our Condensed Consolidated Statements of Cash Flows. The new cash flow standard also impacted the presentation of our cash payments for debt prepayment and debt extinguishment costs, resulting in a reclassification of cash outflows from Operating activities to Financing activities of \$181 million and \$159 million for the three months ended June 30, 2018 and 2017, respectively, and \$212 million and \$188 million for the six months ended June 30, 2018 and 2017, respectively, in our Condensed Consolidated Statements of Cash Flows.

Financial Instruments

In January 2016, the FASB issued ASU 2016-01, “Financial Instruments (Topic 825): Recognition and Measurement of Financial Assets and Financial Liabilities,” and has since modified the standard in February 2018 with ASU 2018-03, “Technical Corrections and Improvements to Financial Instruments - Overall” (Subtopic 825-10). The standard addresses certain aspects of recognition, measurement, presentation and disclosure of financial instruments. The standard became effective for us, and we adopted the standard, on January 1, 2018. The standard requires the impact of adoption to be recorded to retained earnings under a modified retrospective approach. The implementation of this standard did not have a material impact on our condensed consolidated financial statements.

Income Taxes

In October 2016, the FASB issued ASU 2016-16, “Accounting for Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory.” The standard requires that the income tax impact of intra-entity sales and transfers of property, except for inventory, be recognized when the transfer occurs. The standard became effective for us, and we adopted the standard, on January 1, 2018. The standard requires any deferred taxes not yet recognized on intra-entity transfers to be recorded to retained earnings under a modified retrospective approach. The implementation of this standard did not have a material impact on our condensed consolidated financial statements.

Accounting Pronouncements Not Yet Adopted

Leases

In February 2016, the FASB issued ASU 2016-02, “Leases (Topic 842),” and has since modified the standard in January 2018 with ASU 2018-01, “Land Easement Practical Expedient for Transition to Topic 842” and in July 2018 with ASU 2018-11 “Targeted Improvements” (collectively, the “new lease standard”). The new lease 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 new lease standard requires lessees and lessors to classify most leases using principles similar to existing lease accounting. For lessors, the new lease standard modifies the classification criteria and the accounting for sales-type and direct financing leases. We are currently evaluating the new lease standard, which will require recognizing and measuring leases at the beginning of the earliest period presented using a modified retrospective approach. Our evaluation includes assessing which of our arrangements qualify as a lease, and aggregating lease data and related information as well as determining whether previous conclusions for certain transactions, such as failed sale leaseback arrangements under the previous lease standard, Leases (Topic 840), would change under the new lease standard. We plan to adopt the new lease standard when it becomes effective for us beginning January 1, 2019, and expect the adoption of the new lease standard will

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result in the recognition of right-of-use assets and lease liabilities that have not previously been recorded, which will have a material impact on our condensed consolidated financial statements.

We are in the process of implementing significant new lease accounting systems, processes and internal controls over lease recognition, which will ultimately assist in the application of the new lease standard.

Financial Instruments

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 forecasts that affect the collectability 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 condensed consolidated financial statements and the timing of adoption.

Other recent accounting pronouncements issued by the FASB (including its Emerging Issues Task Force), the American Institute of Certified Public Accountants, and the Securities and Exchange Commission (“SEC”) did not have, or are not believed by management to have, a significant impact on our present or future consolidated financial statements.

Note 2 - Significant Transactions

Business Combinations

During the first half of 2018, we completed the following acquisitions which were accounted for as business combinations:

On January 1, 2018, we closed on our previously announced Unit Purchase Agreement to acquire the remaining equity in Iowa Wireless Services, LLC (“IWS”), a 54% owned unconsolidated subsidiary, for a purchase price of \$25 million.

On January 22, 2018, we completed our acquisition of television innovator Layer3 TV, Inc. (“Layer3 TV”) for cash consideration of \$318 million.

Proposed Sprint Transaction

On April 29, 2018, we entered into a Business Combination Agreement (the “Business Combination Agreement”) to merge with Sprint Corporation (“Sprint”).

See Note 3 - Business Combinations for further information.

Hurricane Impacts

During the first quarter of 2018, we recognized \$36 million in incremental costs to maintain services in Puerto Rico related to hurricanes that occurred in 2017. Additional costs incurred during the second quarter were immaterial and

are expected to be immaterial during the remainder of 2018. We received reimbursement payments from our insurance carriers for property damage of \$94 million during the first quarter of 2018, previously accrued for as a receivable as of December 31, 2017, and \$70 million during the second quarter of 2018. We continue to work with our insurance carriers and expect additional reimbursement related to these hurricanes in future periods.

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The following table shows the hurricane impacts in our Condensed Consolidated Statements of Comprehensive Income for the three and six months ended June 30, 2018 are as follows:

	Three Months Ended June 30, 2018		Six Months Ended June 30, 2018		
(in millions, except per share amounts)	Gross Reim- bursement	Net	Gross	Reim- bursement	Net
Increase (decrease)					
Cost of services	\$—\$ (70)	\$(70)	\$36	\$ (70)	\$(34)
Total operating expenses	\$—\$ (70)	\$(70)	\$36	\$ (70)	\$(34)
Operating income (loss)	\$—\$ 70	\$70	\$(36)	\$ 70	\$34
Net income (loss)	\$—\$ 45	\$45	\$(23)	\$ 45	\$22
Earnings per share - basic	\$—\$ 0.06	\$0.06	\$(0.03)	\$ 0.06	\$0.03
Earnings per share - diluted	\$—\$ 0.06	\$0.06	\$(0.03)	\$ 0.06	\$0.03

Sales of Certain Receivables

In February 2018, the service receivable sale agreement was amended to extend the scheduled expiration date to March 2019. See [Note 5 – Sales of Certain Receivables](#) for further information.

Debt

During the first half of 2018, we completed significant transactions with both third parties and affiliates related to the issuance, borrowing and redemption of debt. See [Note 9 - Debt](#) for further information.

Repurchases of Common Stock

During the first half of 2018, we made additional repurchases of our common stock. Additionally, during the first quarter of 2018, Deutsche Telekom AG (“DT”), our majority stockholder and an affiliated purchaser, made additional purchases of our common stock. See [Note 12 – Repurchases of Common Stock](#) for further information.

Note 3 - Business Combinations

Proposed Sprint Transaction

On April 29, 2018, we entered into a Business Combination Agreement to merge with Sprint in an all-stock transaction at a fixed exchange ratio of 0.10256 shares of T-Mobile common stock for each share of Sprint common stock, or 9.75 shares of Sprint common stock for each share of T-Mobile common stock (the “Merger”). The combined company will be named “T-Mobile” and, as a result of the Merger, is expected to be able to rapidly launch a nationwide 5G network, accelerate innovation and increase competition in the U.S. wireless, video and broadband industries. Neither T-Mobile nor Sprint on its own could generate comparable benefits to consumers.

The Merger and the other transactions contemplated by the Business Combination Agreement (the “Transactions”) have been approved by the boards of directors of T-Mobile and Sprint. Following the Merger, it is anticipated that Deutsche Telekom AG (“Deutsche Telekom”) and SoftBank Group Corp. (“SoftBank”) will hold, directly or indirectly, on a fully diluted basis, approximately 41.7% and 27.4%, respectively, of the outstanding T-Mobile common stock, with the remaining approximately 30.9% of the outstanding T-Mobile common stock held by other stockholders, based on closing share prices and certain other assumptions as of the date of the Business Combination Agreement.

In connection with the entry into the Business Combination Agreement, T-Mobile USA, Inc. (“T-Mobile USA”) entered into a commitment letter, dated as of April 29, 2018 (as amended and restated on May 15, 2018, the “Commitment Letter”), with certain financial institutions named therein that have committed to provide up to \$38.0 billion in debt financing. As permitted by the terms of the Commitment Letter, on June 6, 2018, T-Mobile USA reduced the initial aggregate commitment under the Commitment Letter by \$8.0 billion such that the remaining size of the commitment is currently \$30.0 billion. The funding of the debt facilities provided for in the Commitment Letter is subject to the satisfaction of the conditions set forth therein, including consummation of the Merger. The proceeds of the debt financing provided for in the Commitment Letter will be used to refinance certain existing debt of us, Sprint and our and Sprint’s respective subsidiaries and for post-closing working capital

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needs of the combined company. In connection with the entry into the Business Combination Agreement, DT and T-Mobile USA entered into a Financing Matters Agreement, dated as of April 29, 2018, pursuant to which DT agreed, among other things, to consent to the incurrence by T-Mobile USA of secured debt in connection with and after the consummation of the Merger. In connection with receiving the requisite consents, our upfront payment to DT was \$7 million during the three months ended June 30, 2018 and was recognized as a reduction to Long-term debt to affiliates in our Condensed Consolidated Balance Sheets. See Note 9 - Debt for further information.

On May 18, 2018, under the terms and conditions described in the Consent Solicitation Statement dated as of May 14, 2018 (the "Consent Solicitation Statement"), we obtained consents necessary to effect certain amendments to certain existing debt of us and our subsidiaries. In connection with receiving the requisite consents, our upfront payments to third-party Note holders were approximately \$31 million during the three months ended June 30, 2018 and were recognized as a reduction to Long-term debt. We paid third party bank fees associated with obtaining the requisite consents of \$6 million during the three months ended June 30, 2018, which we recognized as Selling, general and administrative expenses in our Condensed Consolidated Statements of Comprehensive Income.

Under the terms of Business Combination Agreement, Sprint may be required to reimburse us for 33% of the upfront consent and related bank fees we paid, or \$14 million, if the Business Combination Agreement is terminated. We have not accrued the reimbursement of these fees as of June 30, 2018. On May 18, 2018, Sprint also obtained consents necessary to effect certain amendments to certain existing debt of it and its subsidiaries. In connection with receiving the requisite consents, Sprint's upfront payments to third party Note holders and related bank fees were \$241 million during the three months ended June 30, 2018. Under the terms of Business Combination Agreement, we may also be required to reimburse Sprint for 67% of the upfront consent and related bank fees it paid, or \$161 million, if the Business Combination Agreement is terminated. We have not accrued these fees as of June 30, 2018.

For the three months and six months ended June 30, 2018, we recognized costs associated with the proposed Sprint transaction of \$41 million. These costs generally included bank fees associated with obtaining the requisite consents on debt to third parties, consulting, and legal fees and were recognized as Selling, general and administrative expenses in our Condensed Consolidated Statements of Comprehensive Income.

The consummation of the transactions contemplated by the Business Combination Agreement is subject to regulatory approvals and certain other customary closing conditions. The transaction is expected to close during the first half of 2019. The Business Combination Agreement contains certain termination rights for both Sprint and us. If we terminate the Business Combination Agreement in connection with a failure to satisfy the closing condition related to specified minimum credit ratings for the combined company on the closing date of the Merger (after giving effect to the Merger) from at least two of the three credit rating agencies, then in certain circumstances, we may be required to pay Sprint an amount equal to \$600 million.

On June 18, 2018, we filed the Public Interest Statement and applications for approval of our merger with Sprint with the Federal Communications Commission ("FCC"). On July 18, 2018, the FCC issued a Public Notice formally accepting our applications and establishing a period for public comment.

On July 30, 2018, we filed a registration statement on Form S-4 with the Securities and Exchange Commission related to the Merger, which is available at the T-Mobile Investor Relations website. The registration statement has not yet become effective.

Acquisition of Layer3 TV

On January 22, 2018, we completed our acquisition of television innovator Layer3 TV for cash consideration of \$318 million. The consideration included a \$5 million payment that was made after the closing date in the second quarter of

2018. Upon closing of the transaction, Layer3 TV became a wholly-owned consolidated subsidiary. Layer3 TV acquires and distributes digital entertainment programming primarily through the internet to residential customers, offering direct to home digital television and multi-channel video programming distribution services. This transaction represented an opportunity to acquire a complementary service to our existing wireless service to advance our video strategy.

We accounted for the purchase of Layer3 TV as a business combination. Costs related to this acquisition were immaterial to our Condensed Consolidated Statements of Comprehensive Income. The grant-date fair value of cash-based and share-based incentive compensation awards attributable to post-combination services was approximately \$37 million.

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The following table shows the amounts recognized as of the acquisition date for each major class of assets acquired and liabilities assumed and the resultant purchase price allocation:

	January
(in millions)	22,
	2018
Assets acquired	
Cash and cash equivalents	\$ 2
Other current assets	14
Property and equipment, net	11
Intangible assets	100
Goodwill	218
Deferred tax assets	2
Total assets acquired	\$ 347
Liabilities assumed	
Accounts payable and accrued liabilities	\$ 27
Short-term debt	2
Total liabilities assumed	29
Total consideration transferred	\$ 318

We recognized a liability of \$21 million within Accounts payable and accrued liabilities in our Condensed Consolidated Balance Sheets and an associated indemnification asset of \$12 million in our Condensed Consolidated Balance Sheets related to minimum commitments under acquired content agreements. The maximum amount that would be received under the indemnification agreement is \$12 million.

Goodwill of \$218 million is calculated as the excess of the purchase price paid over the net assets acquired. The goodwill recorded as part of the Layer3 TV acquisition primarily reflects industry knowledge of the retained management team, as well as intangible assets that do not qualify for separate recognition. None of the goodwill is deductible for tax purposes. See Note 6 - Goodwill for further information.

As part of the transaction, we acquired an identifiable intangible asset of developed technology with an estimated fair value of \$100 million, which is being amortized on a straight-line basis over a useful life of 5 years.

The financial results from the acquisition of Layer3 TV since the closing date through June 30, 2018 were not material to our Condensed Consolidated Statements of Comprehensive Income.

Acquisition of Iowa Wireless

On January 1, 2018 (the “acquisition date”), we closed on our previously announced Unit Purchase Agreement to acquire the remaining equity in IWS, a 54% owned unconsolidated subsidiary, for a purchase price of \$25 million. We accounted for our acquisition of IWS as a business combination.

Prior to the acquisition date, we accounted for our previously-held investment in IWS under the equity method as we had significant influence, but not control. Authoritative guidance on accounting for business combinations requires that an acquirer re-measure its previously held equity interest in the acquiree at its acquisition date fair value and recognize the resulting gain or loss in earnings. As such, we valued our previously held equity interest in IWS at \$56 million as of the acquisition date and recognized a gain of \$15 million.

The following table highlights the consideration transferred, the fair value of our previously held equity interest and bargain purchase:

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(in millions)	January 1, 2018
Consideration transferred:	
Cash paid	\$ 25
Previously held equity interest:	
Acquisition date fair value of previously held equity interest	56
Bargain purchase gain	25
Net assets acquired	\$ 106

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As part of the acquisition of IWS, we recognized a bargain purchase gain of approximately \$25 million, which represents the fair value of the identifiable net assets acquired, primarily IWS spectrum licenses, in excess of the purchase price and fair value of our previously held equity interest. We were in a favorable position to acquire the remaining shares of IWS as a result of our previously held 54% equity interest in IWS, an unprofitable business with valuable spectrum holdings.

The following table shows the amounts recognized as of the acquisition date for each major class of assets acquired and liabilities assumed and the resultant purchase price allocation:

	January
(in millions)	1,
	2018
Assets acquired	
Current assets	
Cash and cash equivalents	\$ 3
Accounts receivable, net	6
Equipment installment plan receivables, net	3
Inventories	1
Other current assets	2
Total current assets	15
Property and equipment, net	36
Spectrum licenses	87
Total assets acquired	\$ 138
Liabilities assumed	
Accounts payable and accrued liabilities	\$ 6
Deferred revenue	2
Total current liabilities	8
Deferred tax liabilities	17
Other long-term liabilities	7
Total long-term liabilities	24
Net assets acquired	\$ 106

We included both the gain on our previously held equity interest in IWS and the bargain purchase gain within Other expense, net for the six months ended June 30, 2018.

Pro forma information

The acquisitions of Layer3 TV and IWS were not material to our prior period consolidated results on a pro forma basis.

Note 4 – Receivables and Allowance for Credit Losses

Our portfolio of receivables is comprised of two portfolio segments, accounts receivable and EIP receivables. Our accounts receivable segment primarily consists of amounts currently due from customers, including service and leased device receivables, other carriers and third-party retail channels.

Based upon customer credit profiles, we classify the EIP receivables segment into two customer classes of “Prime” and “Subprime.” Prime customer receivables are those with lower delinquency risk and Subprime customer receivables are those with higher delinquency risk. 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.

To determine a customer's credit profile, we use a proprietary credit scoring model that measures the credit quality of a customer at the time of application for wireless communications service using several factors, such as credit bureau information, consumer credit risk scores and service plan characteristics.

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The following table summarizes the EIP receivables, including imputed discounts and related allowance for credit losses:

(in millions)	June 30, December 31,	
	2018	2017
EIP receivables, gross	\$3,914	\$ 3,960
Unamortized imputed discount	(268)	(264)
EIP receivables, net of unamortized imputed discount	3,646	3,696
Allowance for credit losses	(116)	(132)
EIP receivables, net	\$3,530	\$ 3,564

Classified on the balance sheet as:

Equipment installment plan receivables, net	\$2,308	\$ 2,290
Equipment installment plan receivables due after one year, net	1,222	1,274
EIP receivables, net	\$3,530	\$ 3,564

To determine the appropriate level of the allowance for credit losses, we consider a number of credit quality indicators, including historical credit losses and timely payment experience as well as current collection trends such as write-off frequency and severity, aging of the receivable portfolio, credit quality of the customer base and other qualitative factors such as macro-economic conditions.

We write off account balances if collection efforts are unsuccessful and the receivable balance is deemed uncollectible, based on customer credit quality and the aging of the receivable.

For EIP receivables, subsequent to the initial determination of the imputed discount, we assess the need for and, if necessary, recognize an allowance for credit losses to the extent the amount of estimated probable losses on the gross EIP receivable balances exceed the remaining unamortized imputed discount balances.

The EIP receivables had weighted average effective imputed interest rates of 10.1% and 9.6% as of June 30, 2018 and December 31, 2017, respectively.

Activity for the six months ended June 30, 2018 and 2017, in the allowance for credit losses and unamortized imputed discount balances for the accounts receivable and EIP receivable segments were as follows:

(in millions)	June 30, 2018			June 30, 2017		
	Accounts Receivable	EIP Receivables	Total	Accounts Receivable	EIP Receivables	Total
	Allowance	Allowance		Allowance	Allowance	
Allowance for credit losses and imputed discount, beginning of period	\$86	\$ 396	\$482	\$102	\$ 316	\$418
Bad debt expense	25	103	128	56	119	175
Write-offs, net of recoveries	(41)	(119)	(160)	(75)	(137)	(212)
Change in imputed discount on short-term and long-term EIP receivables	N/A	102	102	N/A	121	121
Impact on the imputed discount from sales of EIP receivables	N/A	(98)	(98)	N/A	(85)	(85)
Allowance for credit losses and imputed discount, end of period	\$70	\$ 384	\$454	\$83	\$ 334	\$417

Management considers the aging of receivables to be an important credit indicator. The following table provides delinquency status for the unpaid principal balance for receivables within the EIP portfolio segment, which we actively monitor as part of our current credit risk management practices and policies:

June 30, 2018 December 31, 2017

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(in millions)	Total EIP			Total EIP		
	Prime	Subprime	Receivables, gross	Prime	Subprime	Receivables, gross
Current - 30 days past due	\$1,630	\$ 2,204	\$ 3,834	\$1,727	\$ 2,133	\$ 3,860
31 - 60 days past due	12	27	39	17	29	46
61 - 90 days past due	5	14	19	6	16	22
More than 90 days past due	6	16	22	8	24	32
Total receivables, gross	\$1,653	\$ 2,261	\$ 3,914	\$1,758	\$ 2,202	\$ 3,960

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Note 5 – Sales of Certain Receivables

We have entered into transactions to sell certain service and EIP accounts receivable. The transactions, including our continuing involvement with the sold receivables and the respective impacts to our condensed consolidated 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 receivable on a revolving basis and in November 2016, the arrangement was amended to increase the maximum funding commitment to \$950 million (the “service receivable sale arrangement”) and extend the scheduled expiration date to March 2018. In February 2018, the service receivable sale arrangement was again amended to extend the scheduled expiration date to March 2019. In April 2018, the service receivable sale arrangement was again amended to update certain terms and covenants contained therein to make them consistent with analogous terms and covenants in documents of our other financing arrangements. As of June 30, 2018 and December 31, 2017, the service receivable sale arrangement provided funding of \$818 million and \$880 million, respectively. 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 service receivable sale arrangement, we formed a wholly-owned subsidiary, which qualifies as a bankruptcy remote entity, to sell service accounts receivable (the “Service BRE”). The Service BRE does not qualify as a 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 the Service BRE. The Service BRE then sells the receivables to an unaffiliated entity (the “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 the Service VIE qualifies as a VIE as it lacks sufficient equity to finance its activities. We have a variable interest in the Service VIE, but are not the primary beneficiary as we lack the power to direct the activities that most significantly impact the Service VIE’s economic performance. Those activities include committing the Service VIE to legal agreements to purchase or sell assets, selecting which receivables are purchased in the service receivable sale arrangement, determining whether the Service VIE will sell interests in the purchased service receivables to other parties, funding of the entity 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 Service 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 balances and results of the Service VIE are not included in our condensed consolidated financial statements.

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

(in millions)	June 30, December 31,	
	2018	2017
Other current assets	\$ 287	\$ 236
Accounts payable and accrued liabilities	10	25

Other current liabilities	159	180
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Sales of EIP Receivables

Overview of the Transaction

In 2015, we entered into an arrangement to sell certain EIP accounts receivable on a revolving basis and in August 2017, the EIP sale arrangement was amended to reduce the maximum funding commitment to \$1.2 billion (the “EIP sale arrangement”) and extend the scheduled expiration date to November 2018. In December 2017, the EIP sale arrangement was again amended

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to increase the maximum funding commitment to \$1.3 billion. In April 2018, the EIP sale arrangement was again amended to update certain terms and covenants contained therein to make them consistent with analogous terms and covenants in the documentation of our other financing arrangements. As of both June 30, 2018 and December 31, 2017, the EIP sale arrangement provided funding of \$1.3 billion. 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 (the “EIP BRE”). Pursuant to the EIP sale arrangement, our wholly-owned subsidiary transfers selected receivables to the EIP BRE. The 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 third-party entity qualify as a VIE.

Variable Interest Entity

We determined that the 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 the EIP BRE and determined that we are the primary beneficiary based on our ability to direct the activities which most significantly impact the EIP BRE’s economic performance. Those activities include selecting which receivables are transferred into the EIP BRE and sold in the EIP sale arrangement and funding of the EIP BRE. Additionally, our equity interest in the 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 the EIP BRE. Accordingly, we determined that we are the primary beneficiary, and include the balances and results of operations of the EIP BRE in our condensed consolidated financial statements.

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

(in millions)	June 30, December 31,	
	2018	2017
Other current assets	\$ 394	\$ 403
Other assets	99	109
Other long-term liabilities	20	3

In addition, the EIP BRE is a separate legal entity with its own separate creditors who will be entitled, prior to any liquidation of the EIP BRE, to be satisfied prior to any value in the EIP BRE becoming available to us. Accordingly, the assets of the EIP BRE may not be used to settle our general obligations and creditors of the 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 cash proceeds received upon sale in Net cash provided by operating activities in our Condensed Consolidated Statements of Cash Flows. We recognize proceeds 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 investing activities in our Condensed Consolidated Statements of Cash Flows as Proceeds related to beneficial interests in securitization transactions.

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 June 30, 2018 and December 31, 2017, our deferred purchase price related to the sales of service receivables and EIP receivables was \$778 million and \$745 million, respectively.

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

(in millions)	June 30, December 31,	
	2018	2017
Derecognized net service receivables and EIP receivables	\$2,679	\$ 2,725
Other current assets	681	639
of which, deferred purchase price	679	636
Other long-term assets	99	109
of which, deferred purchase price	99	109
Accounts payable and accrued liabilities	10	25
Other current liabilities	159	180
Other long-term liabilities	20	3
Net cash proceeds since inception	1,933	2,058
Of which:		
Change in net cash proceeds during the year-to-date period	(125) 28
Net cash proceeds funded by reinvested collections	2,058	2,030

We recognized losses from sales of receivables of \$28 million and \$80 million for the three months ended June 30, 2018 and 2017, respectively, and \$80 million and \$175 million for the six months ended June 30, 2018 and 2017, 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.

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 primarily 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 \$1.3 billion as of June 30, 2018. 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 6 - Goodwill

The changes in the carrying amount of goodwill for the six months ended June 30, 2018, are as follows:

(in millions)	Goodwill
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Historical goodwill	\$12,449
Accumulated impairment losses at December 31, 2017	(10,766)
Balance as of December 31, 2017	1,683
Goodwill from acquisition of Layer3 TV	218
Balance as of June 30, 2018	\$1,901
Accumulated impairment losses at June 30, 2018	\$(10,766)

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On January 22, 2018, we completed our acquisition of television innovator Layer3 TV. This purchase was accounted for as a business combination resulting in \$218 million in goodwill. Layer3 TV is a separate reporting unit and the acquired goodwill will be tested for impairment at this level. See Note 3 - Business Combinations for additional information.

Note 7 – Spectrum License Transactions

The following table summarizes our spectrum license activity for the six months ended June 30, 2018:

(in millions)	Spectrum Licenses
Balance at December 31, 2017	\$ 35,366
Spectrum license acquisitions	136
Costs to clear spectrum	30
Balance at June 30, 2018	\$ 35,532

We had the following spectrum license transactions in the six months ended June 30, 2018:

We recorded spectrum licenses received as part of our acquisition of the remaining equity interest in IWS at their estimated fair value of approximately \$87 million. See Note 3 - Business Combinations for further information.

We closed on multiple spectrum purchase agreements in which we acquired total spectrum licenses of approximately \$49 million for cash consideration. No gains or losses were recognized on the spectrum license purchases.

Note 8 – Fair Value Measurements

The carrying values of cash and cash equivalents, accounts receivable, accounts receivable from affiliates, accounts payable, and borrowings under our senior secured revolving credit facility with DT, our majority stockholder, approximate fair value due to the short-term maturities of these instruments.

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. See Note 5 – Sales of Certain Receivables for further information.

The carrying amounts and fair values of our assets measured at fair value on a recurring basis included in our Condensed Consolidated Balance Sheets were as follows:

	Level within the Fair Value Hierarchy	June 30, 2018	December 31, 2017
(in millions)		Carrying Amount	Carrying Amount
Assets:			
Deferred purchase price assets	3	\$ 778	\$ 745

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 within the fair value hierarchy. The fair values of our Senior Notes to affiliates, Incremental Term Loan Facility to affiliates, and Senior Reset Notes to affiliates were determined based on a

discounted cash flow approach using market interest rates of instruments with similar terms and maturities and an estimate for our standalone credit risk. Accordingly, our Senior Notes to affiliates, Incremental Term Loan Facility to affiliates, and Senior Reset Notes to affiliates were classified as Level 2 within 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 Notes to affiliates, Incremental Term Loan Facility to affiliates, and Senior Reset Notes to affiliates. The fair value estimates were based on information available as of June 30, 2018 and December 31, 2017. As such, our estimates are not necessarily indicative of the amount we could realize in a current market exchange.

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

(in millions)	Level within the Fair Value Hierarchy	June 30, 2018		December 31, 2017	
		Carrying Fair Amount	Fair Value	Carrying Fair Amount	Fair Value
Liabilities:					
Senior Notes to third parties	1	\$ 10,947	\$ 11,159	\$ 11,910	\$ 12,540
Senior Notes to affiliates	2	9,983	10,015	7,486	7,852
Incremental Term Loan Facility to affiliates	2	4,000	3,973	4,000	4,020
Senior Reset Notes to affiliates	2	598	658	3,100	3,260

Note 9 – Debt

Activity for the six months ended June 30, 2018, related to our debt was as follows:

(in millions)	December 31, 2017	Proceeds from Issuances and Borrowings (1)(3)	Note Redemptions (1)(3)	Repayments	Reclassification (1)	Consent Fees	Other (2)	June 30, 2018
Short-term debt	\$ 1,612	\$ —	\$ (3,424)	\$ —	\$ 2,425	\$ —	\$ 391	\$ 1,004
Long-term debt	12,121	2,494	—	—	(2,425)	(31)	(94)	12,065
Total debt to third parties	13,733	2,494	(3,424)	—	—	(31)	297	13,069
Short-term debt to affiliates	—	4,240	—	(3,920)	—	—	—	320
Long-term debt to affiliates	14,586	—	—	—	—	(7)	2	14,581
Total debt to affiliates	14,586	4,240	—	(3,920)	—	(7)	2	14,901
Total debt	\$ 28,319	\$ 6,734	\$ (3,424)	\$ (3,920)	\$ —	\$ (38)	\$ 299	\$ 27,970

Issuances and borrowings, note redemptions, and reclassifications are recorded net of related issuance costs,

(1) discounts, and premiums. Issuances and borrowings and repayments for Short-term debt to affiliates represent net outstanding borrowings and net repayments on our revolving credit facility.

Other includes: \$300 million of issuances of short-term debt related to vendor financing arrangements, of which \$291 million related to financing of property and equipment. During the six months ended June 30, 2018, we did not have any repayments under the vendor financing arrangements. Vendor financing arrangements are included in (2) Short-term debt within Total current liabilities in our Condensed Consolidated Balance Sheets. Other also includes capital leases and the amortization of issuance costs, discounts, premiums, and consent fees. Capital lease liabilities totaled \$1.8 billion at both June 30, 2018 and December 31, 2017.

Through net settlement on April 30, 2018, we issued to DT a total of \$2.5 billion in aggregate principal amount of (3) New DT Notes (as defined below) and redeemed \$1.25 billion in aggregate principal amount of 8.097% Senior Reset Notes due 2021 and \$1.25 billion in aggregate principal amount of 8.195% Senior Reset Notes due 2022 (collectively, the “DT Senior Reset Notes”) held by DT.

Debt to Third Parties

During the six months ended June 30, 2018, we issued the following Senior Notes:

(in millions)	Principal Issuances	Issuance Costs	Net Proceeds from Issuance of Long-Term Debt	Issue Date
4.500% Senior Notes due 2026	\$ 1,000	\$ 2	\$ 998	January 25, 2018
4.750% Senior Notes due 2028	1,500	4	1,496	January 25, 2018
Total of Senior Notes issued	\$ 2,500	\$ 6	\$ 2,494	

We used the net proceeds of \$2.494 billion from the public debt issuance in January 2018 to redeem our \$1.750 billion of 6.625% Senior Notes due 2023 on April 1, 2018, and to redeem our \$600 million of 6.836% Senior Notes due 2023 on April 28, 2018, as further discussed below, and for general corporate purposes, including the partial repayment of borrowings under our revolving credit facility with DT.

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During the six months ended June 30, 2018, we made the following note redemptions:

(in millions)	Principal Amount	Write-off of Premiums, Discounts and Issuance Costs ⁽¹⁾	Call Penalties ⁽²⁾	Redemption Date	Redemption Price
6.125% Senior Notes due 2022	\$ 1,000	\$ 1	\$ 31	January 15, 2018	103.063 %
6.625% Senior Notes due 2023	1,750	(75)	58	April 1, 2018	103.313 %
6.836% Senior Notes due 2023	600	—	21	April 28, 2018	103.418 %

Write-off of premiums, discounts, issuance costs and call penalties are included in Other expense, net in our Condensed Consolidated Statements of Comprehensive Income. Write-off of premiums, discounts and issuance costs are included in Losses on redemption of debt within Net cash provided by operating activities in our Condensed Consolidated Statements of Cash Flows.

(1)

The call penalty is the excess paid over the principal amount. Call penalties are included within Net cash used in financing activities in our Condensed Consolidated Statements of Cash Flows.

(2)

Debt to Affiliates

On April 30, 2018, DT purchased (i) \$1.0 billion in aggregate principal amount of 4.500% Senior Notes due 2026 and (ii) \$1.5 billion in aggregate principal amount of 4.750% Senior Notes due 2028 directly from T-Mobile USA and certain of its affiliates, as guarantors, with no underwriting discount (the “New DT Notes”).

We used the net proceeds of \$2.5 billion from the transaction to refinance existing indebtedness to DT as follows:

(in millions)	Principal Amount	Write-off of Embedded Derivatives ⁽¹⁾	Other ⁽²⁾	Redemption Date	Redemption Price
8.097% Senior Reset Notes due 2021	\$ 1,250	\$ (8)	\$ 51	April 28, 2018	104.0485 %
8.195% Senior Reset Notes due 2022	1,250	(8)	51	April 28, 2018	104.0975 %

Certain components of the reset features were required to be bifurcated from the DT Senior Reset Notes and separately accounted for as embedded derivative instruments. Write-off of embedded derivatives are included in Losses on redemption of debt within Net cash provided by operating activities in our Condensed Consolidated Statements of Cash Flows.

(1)

Cash for the premium portion of the redemption price set forth in the indenture governing the DT Senior Reset Notes, plus accrued but unpaid interest on the DT Senior Reset Notes to, but not including, the exchange date.

(2)

Incremental Term Loan Facility

In March 2018, we amended the terms of the Incremental Term Loan Facility. Following this amendment, the applicable margin payable on LIBOR indexed loans is 1.50% under the \$2.0 billion Incremental Term Loan Facility maturing on November 9, 2022 and 1.75% under the \$2.0 billion Incremental Term Loan Facility maturing on January 31, 2024. The amendment also modified the Incremental Term Loan Facility to (i) include a soft-call prepayment premium of 1.00% of the outstanding principal amount of the loans under the Incremental Term Loan Facility payable to DT upon certain refinancing of such loans by us with lower priced debt prior to a date that is six months after March 29, 2018 and (ii) update certain covenants and other provisions to make them substantially consistent, subject to certain additional carve outs, with our most recently publicly issued notes. No issuance fees were incurred related to

this debt agreement for the three and six months ended June 30, 2018.

Revolving Credit Facility

In January 2018, we utilized proceeds under our revolving credit facility with DT to redeem \$1.0 billion in aggregate principal amount of our 6.125% Senior Notes due 2022 and for general corporate purposes. On January 29, 2018, the proceeds utilized under our revolving credit facility with DT were repaid. The proceeds and borrowings from the revolving credit facility are presented in Proceeds from borrowing on revolving credit facility and Repayments of revolving credit facility within Net cash used in financing activities in our Condensed Consolidated Statements of Cash Flows. As of June 30, 2018, there was \$320 million in outstanding borrowings under the revolving credit facility. As of December 31, 2017, there were no outstanding borrowings under the revolving credit facility.

In March 2018, we amended the terms of (a) our Secured Revolving Credit Facility and (b) our Unsecured Revolving Credit Facility. Following these amendments, (i) the range of applicable margin payable under the Secured Revolving Credit Facility is 1.05% to 1.80%, (ii) the range of the applicable margin payable under the Unsecured Revolving Credit Facility is 2.05% to 3.05%, (iii) the range of the undrawn commitment fee applicable to the Secured Revolving Credit Facility is 0.25% to 0.45%, (iv) the range of the undrawn commitment fee applicable to the Unsecured Revolving Credit Facility is 0.20% to 0.575% and (v) the maturity date of the revolving credit facility with DT is December 29, 2020. The amendments also modify the facility to

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update certain covenants and other provisions to make them substantially consistent, subject to certain additional carve outs, with our most recently publicly issued notes.

Commitment Letter

In connection with the entry into the Business Combination Agreement, T-Mobile USA entered into a commitment letter, dated as of April 29, 2018 (as amended and restated on May 15, 2018, the “Commitment Letter”), with certain financial institutions named therein that have committed to provide up to \$38.0 billion in secured and unsecured debt financing, including a \$4.0 billion secured revolving credit facility, a \$7.0 billion secured term loan facility, a \$19.0 billion secured bridge loan facility and an \$8.0 billion unsecured bridge loan facility. Following the receipt of the debt consents described below, as permitted by the terms of the commitment letter, on May 22, 2018, T-Mobile USA reallocated the entire \$8.0 billion unsecured bridge loan facility to be part of the secured bridge loan facility, increasing the size of the secured bridge loan facility to \$27.0 billion, and subsequently on June 6, 2018, reduced the commitments under the secured bridge facility by \$8.0 billion, such that the remaining size of the secured bridge facility is currently \$19.0 billion and total committed financing is currently \$30.0 billion. The funding of the debt facilities provided for in the Commitment Letter is subject to the satisfaction of the conditions set forth therein, including consummation of the proposed Merger. The proceeds of the debt financing provided for in the Commitment Letter will be used to refinance certain existing debt of us, Sprint and our and Sprint’s respective subsidiaries and for post-closing working capital needs of the combined company.

Financing Matters Agreement

In connection with the entry into the Business Combination Agreement, DT and T-Mobile USA entered into a Financing Matters Agreement, dated as of April 29, 2018 (the “Financing Matters Agreement”). Pursuant to the Financing Matters Agreement, DT agreed, among other things, to consent to the incurrence by T-Mobile USA of secured debt in connection with and after the consummation of the Merger, and to provide a lock up on sales thereby as to certain senior notes of T-Mobile USA held thereby. In addition, T-Mobile USA agreed, among other things, to repay and terminate, upon closing of the Merger, the Incremental Term Loan Facility and the revolving credit facility of T-Mobile USA which are provided by DT, as well as \$2.0 billion of T-Mobile USA’s 5.300% senior notes due 2021 and \$2.0 billion of T-Mobile USA’s 6.000% senior notes due 2024. In addition, T-Mobile USA and DT agreed, upon closing of the Merger, to amend the \$1.25 billion of T-Mobile USA’s 5.125% senior notes due 2025 and \$1.25 billion of T-Mobile USA’s 5.375% senior notes due 2027 to change the maturity dates thereof to April 15, 2021 and April 15, 2022, respectively. In connection with receiving the requisite consents, our upfront payment to DT was \$7 million during the three months ended June 30, 2018 and was recognized as a reduction to Long-term debt to affiliates in our Condensed Consolidated Balance Sheets. If the Business Combination is consummated, we will make additional payments for requisite consents to DT of \$20 million. We have not accrued these additional payments as of June 30, 2018.

Consents on Debt to Third-Parties

On May 18, 2018, under the terms and conditions described in the Consent Solicitation Statement, we obtained consents necessary to effect certain amendments to our Senior Notes to third parties in connection with the Business Combination Agreement. Pursuant to the Consent Solicitation Statement, third party Notes holders agreed, among other things, to consent to increasing the amount of Secured Indebtedness under Credit Facilities that can be incurred from the greater of \$9 billion and 150% of Consolidated Cash Flow to the greater of \$9 billion and an amount that would not cause the Secured Debt to Cash Flow Ratio (calculated net of cash and cash equivalents) to exceed 2.00x (the “Ratio Secured Debt Proposed Amendments”) and in each case as such capitalized term is defined in the Indenture. In connection with receiving the requisite consents for the Ratio Secured Debt Proposed Amendments, our upfront payments to third party Note holders were \$17 million during the three months ended June 30, 2018, and were

recognized as a reduction to Long-term debt in our Condensed Consolidated Balance Sheets. These upfront payments increased the effective interest rate of the related debt.

In addition, Note holders agreed, among other things, to allow certain entities related to Sprint's existing spectrum securitization notes program ("Existing Sprint Spectrum Program") to be non-guarantor Restricted Subsidiaries, provided that the principal amount of the spectrum notes issued and outstanding under the Existing Sprint Spectrum Program does not exceed \$7.0 billion and that the principal amount of such spectrum notes reduces the amount available under the Credit Facilities ratio basket, and to revise the definition of GAAP to mean generally accepted accounting principles in effect from time to time, unless the Company elects to "freeze" GAAP as of any date, and to exclude the effect of the changes in the accounting treatment of lease obligations (the "Existing Sprint Spectrum and GAAP Proposed Amendments," and together with the Ratio Secured Debt Proposed Amendments, the "Proposed Amendments"). In connection with receiving the requisite consents for the Existing Sprint Spectrum and GAAP Proposed Amendments, our upfront payments to third party Note holders were \$14

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million during the three months ended June 30, 2018, and were recognized as a reduction to Long-term debt in our Condensed Consolidated Balance Sheets. These upfront payments increased the effective interest rate of the related debt.

In connection with obtaining the requisite consents, on May 20, 2018, T-Mobile USA, the guarantors and Deutsche Bank Trust Company Americas, as trustee, executed and delivered the 37th supplemental indenture to the Indenture, pursuant to which, with respect to each of the Notes, the Proposed Amendments will become effective immediately prior to the consummation of the Business Combination with Sprint.

We paid third party bank fees associated with obtaining the requisite consents related to the Proposed Amendments of \$6 million during the three months ended June 30, 2018, which we recognized as Selling, general and administrative expenses in our Condensed Consolidated Statements of Comprehensive Income. If the Business Combination is consummated, we will make additional payments to third party Note holders for requisite consents related to the Ratio Secured Debt Proposed Amendments of up to \$54 million and additional payments to third party Note holders for requisite consents related to the Existing Sprint Spectrum and GAAP Proposed Amendments of up to \$41 million. We have not accrued these payments as of June 30, 2018.

Note 10 - Employee Compensation and Benefit Plans

On June 13, 2018, our stockholders approved an amendment to the 2013 Omnibus Incentive Plan (as amended, the “Plan”) which increased the number of shares authorized for issuance under the Plan by 18,500,000 shares, and on June 18, 2018, we filed a Form S-8 to register a total of 19,345,005 shares of common stock pursuant to the Plan, representing those covered by the amendment and certain other predecessor plans.

During the six months ended June 30, 2018, we granted or assumed an aggregate of 5,766,642 restricted stock units (“RSUs”) and restricted stock awards (“RSAs”) to eligible employees, certain non-employee directors, and eligible key executives, which primarily included annual awards.

During the six months ended June 30, 2018, we granted an aggregate of 3,168,197 performance-based restricted stock units (“PRSUs”) to eligible key executives, which primarily included annual awards. In addition, in connection with the entry into a Business Combination Agreement to merge with Sprint, in April 2018 we granted an aggregate of 1,210,710 PRSUs to certain executive officers.

As discussed in Note 3 - Business Combinations, in January 2018, we completed our acquisition of Layer3 TV. The grant-date fair value of share-based incentive compensation awards attributable to post-combination services was approximately \$30 million.

Stock-based compensation expense and related income tax benefits were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions, except shares, per share and contractual life amounts)	2018	2017	2018	2017
Stock-based compensation expense	\$112	\$72	\$209	\$139
Income tax benefit related to stock-based compensation	\$22	\$16	\$42	\$32
Weighted average fair value per stock award granted	\$72.32	\$63.94	\$61.86	\$63.24
Unrecognized compensation expense	\$712	\$478	\$712	\$478
Weighted average period to be recognized (years)	2.1	1.9	2.1	1.9
Fair value of stock awards vested	\$30	\$12	\$267	\$295

Restricted Stock Units and Restricted Stock Awards

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(in millions, except shares, per share and contractual life amounts)	Number of Units or Awards	Weighted	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
		Average Grant Date Fair Value		
Nonvested, December 31, 2017	12,061,608	\$ 50.69	1.1	\$ 766
Granted	5,766,642	59.91		
Vested	3,448,666	45.03		
Forfeited	450,845	56.39		
Nonvested, June 30, 2018	13,928,739	55.94	1.2	832

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Performance-Based Restricted Stock Units

(in millions, except shares, per share and contractual life amounts)	Number of Units	Weighted Average Grant Date Fair Value	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Nonvested, December 31, 2017	1,633,935	\$ 48.06	1.1	\$ 104
Granted	3,168,197	65.97		
Vested	1,006,769	36.47		
Forfeited	11,580	66.32		