

John Bean Technologies CORP  
Form 10-Q  
July 30, 2015

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**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

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**FORM 10-Q**

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**Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

**For the quarterly period ended June 30, 2015**

**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 1-34036**

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**John Bean Technologies Corporation**

**(Exact name of registrant as specified in its charter)**

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**Delaware** **91-1650317**  
(State or other jurisdiction of (I.R.S. Employer

incorporation or organization) Identification No.)

**70 West Madison Street, Chicago, Illinois 60602**  
(Address of principal executive offices) (Zip code)

**(312) 861-5900**

(Registrant's telephone number, including area code)

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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 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," "non-accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

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

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

<b>Class</b>	<b>Outstanding at July 24, 2015</b>
<b>Common Stock, par value \$0.01 per share</b>	29,198,263

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**PART I—FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****John Bean Technologies Corporation****Condensed Consolidated statements of income****(Unaudited)**

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
<b>(In millions, except per share data)</b>				
<b>Revenue</b>	\$254.6	\$247.6	\$479.6	\$445.6
<b>Operating expenses:</b>				
Cost of sales	181.9	179.3	343.9	325.3
Selling, general and administrative expense	45.1	44.9	91.0	88.5
Research and development expense	4.3	3.7	8.0	7.2
Restructuring expense	-	1.0	-	11.2
Other (income) expense, net	0.1	0.2	(0.2 )	0.1
<b>Operating income</b>	<b>23.2</b>	<b>18.5</b>	<b>36.9</b>	<b>13.3</b>
Interest income	0.2	0.3	0.5	0.8
Interest expense	(2.2 )	(1.8 )	(4.3 )	(3.6 )
<b>Income from continuing operations before income taxes</b>	<b>21.2</b>	<b>17.0</b>	<b>33.1</b>	<b>10.5</b>
Provision for income taxes	6.8	5.6	10.7	3.8
<b>Income from continuing operations</b>	<b>14.4</b>	<b>11.4</b>	<b>22.4</b>	<b>6.7</b>
Loss from discontinued operations, net of taxes	-	-	-	(0.1 )
<b>Net income</b>	<b>\$14.4</b>	<b>\$11.4</b>	<b>\$22.4</b>	<b>\$6.6</b>
<b>Basic earnings per share:</b>				
Income from continuing operations	\$0.49	\$0.39	\$0.76	\$0.23
Loss from discontinued operations	-	-	-	-
Net income	\$0.49	\$0.39	\$0.76	\$0.23
<b>Diluted earnings per share:</b>				
Income from continuing operations	\$0.48	\$0.38	\$0.75	\$0.23
Loss from discontinued operations	-	-	-	(0.01 )
Net income	\$0.48	\$0.38	\$0.75	\$0.22
<b>Cash dividends declared per share</b>	<b>\$0.09</b>	<b>\$0.09</b>	<b>\$0.18</b>	<b>\$0.18</b>

**John Bean Technologies Corporation****Condensed Consolidated statements of comprehensive Income****(Unaudited)**

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30, 2015</b>	<b>2014</b>	<b>June 30, 2015</b>	<b>2014</b>
<b>(In millions)</b>				
<b>Net income</b>	\$14.4	\$11.4	\$22.4	\$6.6
<b>Other comprehensive income (loss)</b>				
Foreign currency translation adjustments	6.3	(1.1 )	(10.0)	(0.4)
Pension and other postretirement benefits adjustments, net of tax of (\$0.1) and \$0.3 for 2015; \$0.3 and \$0.6 for 2014, respectively	0.7	0.4	1.6	1.0
Derivatives designated as hedges, net of tax of \$0.3 for the second quarter of 2015	0.4	-	-	-
Other comprehensive income (loss)	7.4	(0.7 )	(8.4 )	0.6
<b>Comprehensive income</b>	<b>\$21.8</b>	<b>\$10.7</b>	<b>\$14.0</b>	<b>\$7.2</b>

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

**John Bean Technologies Corporation****Condensed Consolidated balance sheets**

	<b>June 30, 2015</b>	<b>December 31, 2014</b>
	<b>(Unaudited)</b>	
<b>(In millions, except per share data and number of shares)</b>		
<b>Assets:</b>		
Current Assets:		
Cash and cash equivalents	\$ 19.9	\$ 33.3
Trade receivables, net of allowances of \$2.4 and \$3.0, respectively	164.9	176.2
Inventories	121.7	111.8
Other current assets	40.1	43.4
Deferred Taxes	23.7	23.2
Total current assets	370.3	387.9
Property, plant and equipment, net of accumulated depreciation of \$226.5 and \$232.7, respectively	150.7	147.6
Goodwill	64.2	69.2
Intangible assets - customer relationships, net of accumulated amortization of \$13.8 and \$12.4, respectively	37.9	37.4
Intangible assets - other, net of accumulated amortization of \$34.8 and \$34.5, respectively	19.5	22.6
Other assets	29.0	33.1
<b>Total Assets</b>	<b>\$ 671.6</b>	<b>\$ 697.8</b>
<b>Liabilities and Stockholders' Equity:</b>		
Current Liabilities:		
Short-term debt and current portion of long-term debt	\$ 3.2	\$ 4.2
Accounts payable, trade and other	95.6	89.5
Advance and progress payments	100.2	86.2
Other current liabilities	88.6	106.5
Total current liabilities	287.6	286.4
Long-term debt, less current portion	154.3	173.8
Accrued pension and other postretirement benefits, less current portion	81.9	93.1
Other liabilities	23.5	25.3
Commitments and contingencies (Note 11)		
Stockholders' Equity:		
Preferred stock, \$0.01 par value; 20,000,000 shares authorized; no shares issued	-	-
Common stock, \$0.01 par value; 120,000,000 shares authorized; 2015: 29,316,041 issued and 29,198,263 outstanding; 2014: 29,138,162 issued and 29,091,502 outstanding;	0.3	0.3
Common stock held in treasury, at cost; 2015: 117,778 shares; 2014: 46,660 shares	(4.1	) (1.5
Additional paid-in capital	70.3	71.1
Retained earnings	183.3	166.4
Accumulated other comprehensive loss	(125.5	) (117.1
Total stockholders' equity	124.3	119.2
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$ 671.6</b>	<b>\$ 697.8</b>

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

**John Bean Technologies Corporation****Condensed Consolidated statements of cash flows****(Unaudited)**

<b>(In millions)</b>	<b>Six Months Ended June 30,</b>	
	<b>2015</b>	<b>2014</b>
<b>Cash Flows From Operating Activities:</b>		
Net income	\$22.4	\$6.6
Loss from discontinued operations, net of income taxes	-	0.1
Income from continuing operations	22.4	6.7
Adjustments to reconcile income from continuing operations to cash provided by operating activities of continuing operations:		
Depreciation and amortization	13.6	11.6
Stock-based compensation	3.3	3.7
Other	1.9	3.2
Changes in operating assets and liabilities:		
Trade receivables, net	8.9	28.4
Inventories	(13.6 )	(24.0)
Accounts payable, trade and other	8.9	(0.7 )
Advance and progress payments	17.0	(3.9 )
Other assets and liabilities, net	(22.6 )	(4.7 )
<b>Cash provided by continuing operating activities</b>	<b>39.8</b>	<b>20.3</b>
Net cash required by discontinued operating activities	(0.1 )	(0.3 )
<b>Cash provided by operating activities</b>	<b>39.7</b>	<b>20.0</b>
<b>Cash Flows required by Investing Activities:</b>		
Acquisitions, net of cash acquired	-	(1.7 )
Capital expenditures	(19.4 )	(17.1)
Proceeds from disposal of assets	0.8	1.1
Proceeds from property available for sale	2.0	-
<b>Cash required by investing activities</b>	<b>(16.6 )</b>	<b>(17.7)</b>
<b>Cash Flows provided (required) by Financing Activities:</b>		
Net decrease in short-term debt	(1.1 )	(0.6 )
Cash provided by refinancing of credit facility	183.7	-
Cash payments to settle existing credit facility	(183.7)	-
Net payments on credit facilities	(17.8 )	44.0
Repayment of long-term debt	(0.7 )	(2.8 )
Excess tax benefits	1.8	0.9
Tax withholdings on stock-based compensation awards	(4.3 )	(2.6 )
Purchase of stock held in treasury	(4.1 )	-
Dividends	(5.6 )	(5.5 )



Other	(0.1 )	-
<b>Cash provided (required) by financing activities</b>	<b>(31.9 )</b>	<b>33.4</b>
Effect of foreign exchange rate changes on cash and cash equivalents	(4.6 )	(1.4 )
<b>Increase (decrease) in cash and cash equivalents</b>	<b>(13.4 )</b>	<b>34.3</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>33.3</b>	<b>29.4</b>
<b>Cash and cash equivalents, end of period</b>	<b>\$19.9</b>	<b>\$63.7</b>

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

**John Bean Technologies Corporation**

**Notes to Condensed Consolidated Financial Statements**

**(Unaudited)**

**Note 1. Description of Business and Basis of Presentation**

***Description of Business***

John Bean Technologies Corporation and its majority-owned consolidated subsidiaries (“JBT” or “we”) provide global technology solutions for the food processing and air transportation industries. We design, manufacture, test and service technologically sophisticated systems and products for customers through our JBT FoodTech and JBT AeroTech segments. We have manufacturing operations worldwide and are strategically located to facilitate delivery of our products and services to our customers.

***Basis of Presentation***

In accordance with Securities and Exchange Commission (“SEC”) rules for interim periods, the accompanying unaudited condensed consolidated financial statements (the “interim financial statements”) do not include all of the information and notes for complete financial statements as required by accounting principles generally accepted in the United States of America (“U.S. GAAP”). As such, the accompanying interim financial statements should be read in conjunction with the JBT Annual Report on Form 10-K for the year ended December 31, 2014, which provides a more complete understanding of the Company’s accounting policies, financial position, operating results, business, properties, and other matters. The year-end condensed consolidated balance sheet was derived from audited financial statements.

In the opinion of management, the statements reflect all adjustments (consisting of normal recurring adjustments) necessary for a fair presentation of our financial condition and operating results as of and for the periods presented. Revenue, expenses, assets and liabilities can vary during each quarter of the year. Therefore, the interim results and trends in these statements may not be representative of those for the full year or any future period.

We have reclassified the prior year intangible asset balances to conform to the current year presentation.

*Use of estimates*

Preparation of financial statements that follow U.S. GAAP requires management to make estimates and judgments that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

*Recently issued accounting standards not yet adopted*

In May 2014, the Financial Accounting Standards Board (“FASB”) issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The new standard will replace most existing revenue recognition guidance in U.S. GAAP. The core principle of the ASU requires companies to reevaluate when revenue is recorded on a transaction based upon newly defined criteria, either at a point in time or over time as goods or services are delivered. The ASU requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and estimates, and changes in those estimates. The new standard becomes effective for us as of January 1, 2018, and allows for both retrospective and modified-retrospective methods of adoption. We are currently evaluating the effect, if any, that the updated standard will have on our consolidated financial statements and related disclosures.

In April 2015, the FASB issued ASU No. 2015-03, *Interest – Imputation of Interest (Subtopic 835-30) – Simplifying Presentation of Debt Issuance Costs*. The core principle of the ASU is that an entity should present debt issuance costs as a direct deduction from the face amount of that debt in the balance sheet similar to the manner in which a debt discount or premium is presented, and not reflected as a deferred charge or deferred credit. The ASU requires additional disclosure about the nature of and reason for the change in accounting principle, the transition method, a description of the prior-period information that has been retrospectively adjusted and the effect of the change on the financial statement line item (that is, the debt issuance cost asset and the debt liability). The new standard becomes effective for us as of January 1, 2016, and requires retrospective implementation in which the balance sheet of each individual period presented is to be adjusted to reflect the period-specific effects of applying the new guidance, early adoption is permitted. We anticipate a reduction of assets and liabilities of \$2.6 million and \$1.1 million on our balance sheet as of June 30, 2015 and December 31, 2014, respectively, and we are currently evaluating the requirements of the standard to determine when we will adopt and implement its provisions.

In April 2015, the FASB issued ASU No. 2015-05, *Internal-Use Software (Subtopic 350-40) - Customer's Accounting for Fees Paid in a Cloud Computing Arrangement*. The ASU applies to cloud computing arrangements including software as a service, platform as a service, infrastructure as a service, and other similar hosting arrangements. The ASU was issued to help entities evaluate the accounting for fees paid by a customer in a cloud computing arrangement. The ASU provides guidance about whether the arrangement includes a software license. The core principle of the ASU is that if a cloud computing arrangement includes a software license, then the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. The guidance will not change U.S. GAAP for a customer's accounting for service contracts. The ASU is effective for annual reporting periods, including interim periods within those annual periods, beginning after December 15, 2015. The company anticipates the adoption in the effective period and we are currently evaluating the effect, if any, that the ASU will have on our consolidated financial statements and related disclosures.

In July 2015, the FASB issued ASU No. 2015-11, *Inventory (Topic 330) – Simplifying the Measurement of Inventory*. The core principle of the ASU is that entities that historically used the lower of cost or market in the subsequent measurement of inventory will instead be required to measure inventory at the lower of cost and net realizable value. The guidance will not change U.S. GAAP for inventory measured using LIFO or the retail inventory method. The ASU is effective for annual reporting periods, including interim periods within those annual periods, beginning after December 15, 2016. The company anticipates the adoption in the effective period and we are currently evaluating the effect, if any, that the ASU will have on our consolidated financial statements and related disclosures.

## **Note 2. Acquisitions**

### **Fiscal year 2014**

Consistent with our growth strategy, we completed three acquisitions during 2014 focused on strengthening our protein processing and liquid foods portfolios.

#### ***Wolf-Tec Acquisition***

On December 1, 2014, John Bean Technologies Corporation and its wholly-owned subsidiaries JBT Holdings, LLC and John Bean Technologies Limited, acquired substantially all of the assets and assumed certain liabilities of Wolf-Tec, Inc. (Wolf-Tec) for \$53.9 million in cash. Consideration for the transaction was provided by cash on hand supplemented with borrowings under our revolving line of credit. The acquisition enables us to better meet customer

needs through an expanded portfolio of protein processing equipment and solutions. Our product lines and those of Wolf-Tec are highly complementary, with equipment of both companies frequently utilized on the same production line. The acquisition also provides us with further entry into the beef, pork, and seafood processing markets. The acquisition is strategic in that Wolf-Tec has a strong brand presence, excellent technology and is renowned for its sales and customer support. The acquisition of Wolf-Tec combined with our global reach will create strong future growth opportunities.

This acquisition has been accounted for as a business combination. Tangible and identifiable intangible assets acquired and liabilities assumed were recorded at their respective estimated fair values. The excess of the consideration transferred over the estimated fair value of the net assets received has been recorded as goodwill. The factors that contributed to the recognition of goodwill primarily relate to acquisition-driven anticipated cost savings, revenue enhancement synergies in our protein processing business and the acquisition of an assembled workforce. Approximately \$13.4 million of the goodwill is expected to be deductible for tax purposes. Acquisition related costs totaling \$0.7 million were recognized as other expense in the condensed consolidated statements of income at the time they were incurred.

The Company has substantially completed the purchase price allocation for this acquisition which is based on the fair value of assets acquired and liabilities assumed. However, if additional information is obtained about these assets and liabilities within the measurement period (not to exceed 12 months from the date of the acquisition), including through asset appraisals and learning more about the newly acquired business, the Company will refine its estimates of fair value. During the quarter ended June 30, 2015 the Company refined its estimates of the deferred tax assets by \$0.9 million and other liabilities by (\$1.0 million). The net impact of these adjustments was reflected as a decrease in goodwill. No other significant refinements of the valuation occurred during the quarter.

The following table summarizes the provisional fair values recorded for the assets acquired and liabilities assumed for Wolf-Tec:

(In millions)

Assets:

Cash	\$0.2
Accounts receivable	2.3
Other current assets	0.3
Inventories	6.5
Property, plant and equipment	7.7
Intangible assets:	
Customer relationships	17.2
Intellectual property	4.3
Noncompete agreement	0.8
Backlog & other assets	0.3
Deferred Tax Asset	0.9
Total assets	\$40.5

Liabilities:

Accounts payable	1.7
Deferred revenue	0.3
Other liabilities	1.4
Total liabilities	\$3.4

Total purchase price \$53.9

Goodwill \$16.8

The customer relationships and intellectual property will be amortized over their estimated useful lives of fifteen and ten years, respectively. The non-compete agreement will be amortized over its term of five years and the backlog asset was amortized over four months, reflecting its pattern of use.

### ***ICS Solutions Acquisition***

On July 1, 2014, we completed the acquisition of 100% of the outstanding shares of ICS Solutions, a subsidiary of Stork Food & Dairy Systems B.V., for cash consideration of \$35.7 million, which is net of cash acquired of \$10.0 million. We funded this acquisition with cash on hand as well as borrowings against our revolving line of credit. ICS Solutions, located in Amsterdam, The Netherlands and Gainesville, Georgia, is a worldwide leader in the engineering, installation and servicing of high-capacity food preservation equipment. The acquisition was strategically important as

ICS Solutions' hydromatic continuous sterilizer is complementary to our product portfolio of fillers, seamers and in-container sterilization technologies. With this acquisition, we will leverage our worldwide presence and provide a complete range of high-capacity, in-container sterilization solutions to our customers in the growing global beverage, dairy and canning industries. In addition, this acquisition allows us to improve operational effectiveness as well as enhance sales and service support for our customers through the combination of the businesses.

This acquisition has been accounted for as a business combination. Tangible and identifiable intangible assets acquired and liabilities assumed were recorded at their respective estimated fair values. The excess of the consideration transferred over the estimated fair value of the net assets acquired has been recorded as goodwill. The factors that contributed to the recognition of goodwill primarily relate to expected synergistic benefits from the expansion of our in-container product portfolio. Approximately \$1.1 million of the goodwill is expected to be deductible for tax purposes. Acquisition-related costs were recognized in other expense as incurred and totaled \$0.9 million for the year ended December 31, 2014.

The following table summarizes the fair values recorded for the assets acquired and liabilities assumed for ICS:

(In millions)

Assets:	
Cash	\$10.0
Accounts receivable	2.3
Inventories	0.4
Property, plant and equipment and other assets	0.1
Intangible assets:	
Customer relationships	15.7
Other intangible assets	8.4
Total assets	\$36.9
Liabilities:	
Accounts payable	1.3
Deferred revenue	2.3
Other liabilities	2.4
Deferred taxes	4.1
Total liabilities	10.1
Total purchase price	\$45.7
Goodwill	\$18.9

The customer relationship and other intangible assets will be amortized over a weighted-average useful life of approximately 12 years.

### ***Formcook Acquisition***

During the first quarter of 2014, John Bean Technologies AB (JBT AB), our wholly-owned subsidiary, acquired certain assets and liabilities of Formcook AB, a regional leader in designing, manufacturing and servicing custom-built industrial cooking and forming technologies for the food processing industry. This transaction was accounted for as a business combination. The purchase price was less than \$2 million. While the acquisition was not material to our 2014 results, it is strategically important to our efforts to strengthen our protein processing portfolio.

The pro forma impact of these acquisitions is not material individually or in the aggregate and as such, is not presented.



**Note 3. Inventories**

Inventories consisted of the following:

<b>(In millions)</b>	<b>June 30, 2015</b>	<b>December 31, 2014</b>
Raw materials	\$57.2	\$ 53.7
Work in process	48.6	45.3
Finished goods	83.6	79.2
Gross inventories before LIFO reserves and valuation adjustments	189.4	178.2
LIFO reserves and valuation adjustments	(67.7 )	(66.4 )
<b>Net inventories</b>	<b>\$121.7</b>	<b>\$ 111.8</b>

**Note 4. DEBT**

On February 10, 2015, we entered into a new five-year \$450 million revolving credit facility, with Wells Fargo Securities, LLC as lead arranger, and repaid our existing revolving credit facility. This credit facility permits borrowings in the U.S. and in The Netherlands. Borrowings bear interest, at our option, at one month U.S. LIBOR subject to a floor rate of zero or an alternative base rate, which is the greater of Wells Fargo's Prime Rate, the Federal Funds Rate plus 50 basis points, and LIBOR plus 1%, plus, in each case, a margin dependent on our leverage ratio. We must also pay an annual commitment fee of 15.0 to 30.0 basis points dependent on our leverage ratio. The credit agreement evidencing the facility contains customary representations, warranties, and covenants, including a maximum interest coverage ratio and maximum leverage ratio, as well as certain events of default. (190,881 )

**CASH FLOWS FROM FINANCING ACTIVITIES:**

Change in book overdraft.

11,368 (565) 5,778

Payment upon execution of cash flow hedging derivative

(1,899 )

Proceeds from bridge credit agreements

1,500,000 540,000

Proceeds from Senior Secured Credit Facility

1,600,000

Proceeds from 9 1/4% Senior Notes Due 2014

1,000,000

Proceeds from Credit Agreements

902,875

Proceeds from short-term notes payable

1,703

Debt issuance costs

(58,789 ) (29,480 ) (164 )

Repayment of debt

(2,437,985 ) (754,662 ) (14,215 )

Proceeds from minority interest in majority-owned subsidiary

2,000 1,000

Proceeds from termination of cash flow hedging derivative

4,355

Proceeds from repayment of subscriptions receivable

103

Proceeds from issuance of preferred stock, net of issuance costs

46,662 5

Proceeds from exercise of stock options and warrants

2,744 9,210 460

Net cash provided by (used in) financing activities

1,623,693 712,244 (5,433 )

**INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS**

48,789 90,232 (45,935 )

**CASH AND CASH EQUIVALENTS, beginning of period**

112,709	22,477	68,412
<b>CASH AND CASH EQUIVALENTS, end of period</b>		
\$ 161,498	\$ 112,709	\$ 22,477

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

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**MetroPCS Communications, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements**

**December 31, 2006, 2005 and 2004**

**1. Organization and Business Operations:**

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

On February 25, 2004, MetroPCS, Inc. formed MetroPCS, a new wholly-owned subsidiary. In July 2004, MetroPCS, Inc. merged with a new wholly-owned subsidiary of MetroPCS pursuant to a transaction that resulted in all of the capital stock (and the options and warrants related thereto) of MetroPCS, Inc. converting into capital stock (and options and warrants) of MetroPCS on a one-for-one basis, and MetroPCS, Inc. became a wholly-owned subsidiary of MetroPCS. In accordance with Statement of Financial Accounting Standards ( SFAS ) No. 141, *Business Combinations*, and SFAS No. 154, *Accounting Changes and Error Corrections a replacement of APB Opinion No. 20 and FASB Statement No. 3*, the Company has accounted for the transactions as a change in reporting entity.

Prior to December 31, 2005, MetroPCS qualified as a very small business designated entity ( DE ). MetroPCS met the DE control requirements of the Federal Communications Commission ( FCC ) by issuing Class A Common Stock entitling its holders to 50.1% of the stockholders' votes and the right to designate directors holding a majority of the voting power of MetroPCS' Board of Directors. During 2005, MetroPCS was no longer required to maintain its eligibility as a DE. In accordance with the existing shareholder agreement, the Class A Common Stock automatically converted into common stock of MetroPCS on December 31, 2005 on a one-for-one basis and the holders of the Class A Common Stock relinquished affirmative control of MetroPCS (See Note 13).

On November 24, 2004, MetroPCS, through its wholly-owned subsidiaries and C9 Wireless, LLC, an independent third-party, formed a limited liability company called Royal Street Communications, LLC ( Royal Street Communications ), to bid on spectrum auctioned by the FCC in Auction No. 58. The Company owns 85% of the limited liability company member interest of Royal Street Communications, but may only elect two of the five members of Royal Street Communications' management committee (See Note 3). The consolidated financial statements include the balances and results of operations of MetroPCS and its wholly-owned subsidiaries as well as the balances and results of operations of Royal Street Communications and its wholly-owned subsidiaries (collectively, Royal Street ). The Company consolidates its interest in Royal Street in accordance with Financial Accounting Standards Board ( FASB ) Interpretation No. 46-R, *Consolidation of Variable Interest Entities*, ( FIN 46(R) ). Royal Street qualifies as a variable interest entity under FIN 46(R) because the Company is the primary beneficiary of Royal Street and will absorb all of Royal Street's expected losses. The redeemable minority interest in Royal Street is included in long-term liabilities. All intercompany accounts and transactions between the Company and Royal Street have been eliminated in the consolidated financial statements.

On March 14, 2007, the Company's Board of Directors approved a 3 for 1 stock split of the Company's common stock effected by means of a stock dividend of two shares of common stock for each share of common stock issued and outstanding on that date. All share, per share and conversion amounts relating to common stock and stock options

included in the accompanying consolidated financial statements have been retroactively adjusted to reflect the stock split.

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**MetroPCS Communications, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements  
December 31, 2006, 2005 and 2004 (Continued)**

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

***Consolidation***

The accompanying consolidated financial statements include the balances and results of operations of MetroPCS and its wholly- and majority-owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

***Operating Segments***

SFAS No. 131 *Disclosure About Segments of an Enterprise and Related Information*, ( SFAS No. 131 ), establishes standards for the way that public business enterprises report information about operating segments in annual financial statements. At December 31, 2006, the Company had eight operating segments based on geographic regions within the United States: Atlanta, Dallas/Ft. Worth, Detroit, Miami, San Francisco, Sacramento, Tampa/Sarasota/Orlando, and Los Angeles. The Company aggregates its operating segments into two reportable segments: Core Markets and Expansion Markets (See Note 18).

***Use of Estimates in Financial Statements***

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

allowance for uncollectible accounts receivable;

valuation of inventories;

estimated useful life of assets;

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

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

reserves for uncertain tax positions;

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

valuation of common stock; and

stock-based compensation expense.

***Derivative Instruments and Hedging Activities***

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

**Table of Contents****MetroPCS Communications, Inc. and Subsidiaries****Notes to Consolidated Financial Statements  
December 31, 2006, 2005 and 2004 (Continued)*****Cash and Cash Equivalents***

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

***Short-Term Investments***

The Company's short-term investments consist of securities classified as available-for-sale, which are stated at fair value. The securities include corporate and government bonds with an original maturity of over 90 days and auction rate securities. Unrealized gains and losses, net of related income taxes, for available-for-sale securities are reported in accumulated other comprehensive income, a component of stockholders' equity, until realized. The estimated fair values of investments are based on quoted market prices as of the end of the reporting period (See Note 4).

***Inventories***

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

***Allowance for Uncollectible Accounts Receivable***

The Company maintains allowances for uncollectible accounts for estimated losses resulting from the inability of independent retailers to pay for equipment purchases and for amounts estimated to be uncollectible from other carriers. The following table summarizes the changes in the Company's allowance for uncollectible accounts (in thousands):

	<b>2006</b>	<b>2005</b>	<b>2004</b>
Balance at beginning of period	\$ 2,383	\$ 2,323	\$ 962
Additions:			
Charged to costs and expenses	31	129	125
Direct reduction to revenue and other accounts	929	1,211	2,804
Deductions	(1,393)	(1,280)	(1,568)
Balance at end of period	\$ 1,950	\$ 2,383	\$ 2,323

***Prepaid Expenses***

Prepaid expenses consisted of the following (in thousands):



	<b>2006</b>	<b>2005</b>
Prepaid vendor purchases	\$ 16,898	\$ 11,801
Prepaid rent	9,089	6,347
Prepaid maintenance and support contracts	1,846	1,393
Prepaid insurance	3,047	1,020
Other	2,229	869
Prepaid expenses	\$ 33,109	\$ 21,430

**Table of Contents****MetroPCS Communications, Inc. and Subsidiaries****Notes to Consolidated Financial Statements  
December 31, 2006, 2005 and 2004 (Continued)*****Property and Equipment***

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

	<b>2006</b>	<b>2005</b>
Construction-in-progress	\$ 193,856	\$ 98,078
Network infrastructure	1,329,986	905,924
Office equipment	31,065	17,059
Leasehold improvements	21,721	16,608
Furniture and fixtures	5,903	4,000
Vehicles	207	118
	1,582,738	1,041,787
Accumulated depreciation	(326,576)	(210,297)
Property and equipment, net	\$ 1,256,162	\$ 831,490

Property and equipment are stated at cost. Additions and improvements are capitalized, while expenditures that do not enhance or extend the asset's useful life are charged to operating expenses as incurred. When the Company sells, disposes of or retires property and equipment, the related gains or losses are included in operating results.

Depreciation is applied using the straight-line method over the estimated useful lives of the assets once the assets are placed in service, which are ten years for network infrastructure assets, three to seven years for office equipment, which includes computer equipment, three to seven years for furniture and fixtures and five years for vehicles.

Leasehold improvements are amortized over the shorter of the remaining term of the lease and any renewal periods reasonably assured or the estimated useful life of the improvement. Maintenance and repair costs are charged to expense as incurred. The Company follows the provisions of SFAS No. 34, *Capitalization of Interest Cost*, with respect to its FCC licenses and the related construction of its network infrastructure assets. Capitalization commences with pre-construction period administrative and technical activities, which includes obtaining leases, zoning approvals and building permits, and ceases at the point in which the asset is ready for its intended use, which generally coincides with the market launch date. For the years ended December 31, 2006, 2005 and 2004, the Company capitalized interest in the amount of \$17.5 million, \$3.6 million and \$2.9 million, respectively.

***Restricted Cash and Investments***

Restricted cash and investments consist of money market instruments and short-term investments. In general, these investments are pledged as collateral against letters of credit used as security for payment obligations and are presented as current or non-current assets based on the terms of the underlying letters of credit.

***Revenues and Cost of Service***

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

Effective July 1, 2003, the Company adopted Emerging Issues Task Force ( EITF ) No. 00-21, *Accounting for Revenue Arrangements with Multiple Deliverables*, ( EITF No. 00-21 ). The consensus also supersedes certain guidance set forth in U.S. Securities and Exchange Commission ( SEC ) Staff Accounting Bulletin Number 101, *Revenue Recognition in Financial Statements*, ( SAB 101 ). SAB 101 was amended

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**MetroPCS Communications, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements  
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in December 2003 by Staff Accounting Bulletin Number 104, *Revenue Recognition*, ( SAB 104 ). The consensus addresses the accounting for arrangements that involve the delivery or performance of multiple products, services and/or rights to use assets. Revenue arrangements with multiple deliverables are divided into separate units of accounting and the consideration received is allocated among the separate units of accounting based on their relative fair values.

The Company determined that the sale of wireless services through its direct and indirect sales channels with an accompanying handset constitutes a revenue arrangement with multiple deliverables. Upon adoption of EITF No. 00-21, the Company began dividing these arrangements into separate units of accounting, and allocating the consideration between the handset and the wireless service based on their relative fair values. Consideration received for the handset is recognized as equipment revenue when the handset is delivered and accepted by the customer. Consideration received for the wireless service is recognized as service revenues when earned.

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

Sales incentives offered without charge to customers related to the sale of handsets are recognized as a reduction of revenue when the related equipment revenue is recognized. At December 31, 2005, customers had the right to return handsets within 7 days or 60 minutes of usage, whichever occurred first. In January 2006, the Company expanded the terms of its return policy to allow customers the right to return handsets within 30 days or 60 minutes of usage, whichever occurs first.

***Software Costs***

In accordance with Statement of Position ( SOP ) 98-1, *Accounting for Costs of Computer Software Developed or Obtained for Internal Use*, ( SOP 98-1 ), certain costs related to the purchase of internal use software are capitalized and amortized over the estimated useful life of the software. For the years ended December 31, 2006, 2005 and 2004, the Company capitalized approximately \$8.8 million, \$2.7 million and \$0.9 million, respectively, of purchased software costs under SOP 98-1, that is being amortized over a three-year life. The Company amortized computer software costs of approximately \$2.8 million, \$0.8 million and \$0.4 million for the years ended December 31, 2006, 2005 and 2004, respectively. Capitalized software costs are classified as office equipment.

***FCC Licenses and Microwave Relocation Costs***

The Company operates broadband PCS networks under licenses granted by the FCC for a particular geographic area on spectrum allocated by the FCC for broadband PCS services. In addition, in November 2006, the Company acquired a number of advanced wireless services ( AWS ) licenses which can be used to provide services comparable to the PCS services provided by the Company, and other advanced wireless services. The PCS licenses included the obligation to relocate existing fixed microwave users of the Company s licensed spectrum if the Company s spectrum interfered with their systems and/or reimburse other carriers (according to FCC rules) that relocated prior users if the relocation

benefits the Company's system. Additionally, the Company incurred costs related to microwave relocation in constructing its PCS network. The PCS and AWS licenses and microwave relocation costs are recorded at cost. Although PCS licenses are issued with a stated term, ten years in the case of the PCS licenses and fifteen years in the case of the AWS licenses, the renewal of PCS and AWS licenses is generally a routine matter without substantial cost and the

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**MetroPCS Communications, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements  
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Company has determined that no legal, regulatory, contractual, competitive, economic, or other factors currently exist that limit the useful life of its PCS and AWS licenses. As such, under the provisions of SFAS No. 142, *Goodwill and Other Intangible Assets*, the Company does not amortize PCS and AWS licenses and microwave relocation costs as they are considered to have indefinite lives and together represent the cost of the Company's spectrum. The Company is required to test indefinite-lived intangible assets, consisting of PCS and AWS licenses and microwave relocation costs, for impairment on an annual basis based upon a fair value approach. Indefinite-lived intangible assets must be tested between annual tests if events or changes in circumstances indicate that the asset might be impaired. These events or circumstances could include a significant change in the business climate, including a significant sustained decline in an entity's market value, legal factors, operating performance indicators, competition, sale or disposition of a significant portion of the business, or other factors. The Company completed its impairment tests during the third quarter and no impairment has been recognized through December 31, 2006.

***Advertising and Promotion Costs***

Advertising and promotion costs are expensed as incurred. Advertising costs totaled \$46.4 million, \$25.6 million and \$22.2 million during the years ended December 31, 2006, 2005 and 2004, respectively.

***Income Taxes***

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

The Company establishes reserves when, despite the belief that the Company's tax return positions are fully supportable, the Company believes that certain positions it has taken might be challenged and ultimately might not be sustained. These potential exposures result from the varying applications of statutes, rules, regulations and interpretations. The Company's tax contingency reserves contain assumptions based on past experiences and judgments about potential actions by taxing jurisdictions. While the Company adjusts these reserves in light of changing facts and circumstances, the ultimate resolution of these matters may be greater or less than the amount we have accrued. The Company's effective tax rate includes the impact of reserve positions and changes to reserves that the Company considers appropriate. A number of years may elapse before a particular matter, for which the Company has established a reserve, is finally resolved. Unfavorable settlement of any particular issue may require the use of cash and may increase the effective rate in the year of resolution. Favorable resolution would be recognized as a reduction to the effective rate in the year of resolution. Other long-term liabilities included tax reserves in the amount of \$19.5 million and \$17.1 million as of December 31, 2006 and 2005, respectively. Accounts payable and accrued expenses included tax reserves in the amount of \$4.4 and \$4.1 million as of December 31, 2006 and 2005, respectively (See Note 16).

***Other Comprehensive Income***

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

Table of Contents**MetroPCS Communications, Inc. and Subsidiaries****Notes to Consolidated Financial Statements  
December 31, 2006, 2005 and 2004 (Continued)*****Stock-Based Compensation***

Effective January 1, 2006, the Company adopted the fair value recognition provisions of SFAS No. 123(R), *Share-Based Payment*, ( SFAS No. 123(R) ), which replaces SFAS No. 123, *Accounting for Stock-Based Compensation*, ( SFAS No. 123 ) and supersedes Accounting Principles Board ( APB ) Opinion No. 25, *Accounting for Stock Issued to Employees*, and its related interpretations ( APB No. 25 ). Prior to the first quarter of 2006, the Company measured stock-based compensation expense for its stock-based employee compensation plans using the intrinsic value method prescribed by APB No. 25, as allowed by SFAS No. 123. The Company elected the modified prospective transition method. Under that transition method, compensation expense recognized beginning on that date includes: (a) compensation expense for all share-based payments granted prior to, but not yet vested as of, January 1, 2006, based on the grant-date fair value estimated in accordance with the original provisions of SFAS No. 123, and (b) compensation expense for all share-based payments granted on or after January 1, 2006, based on the grant-date fair value estimated in accordance with the provisions of SFAS No. 123(R). Although there was no material impact on the Company's financial position, results of operations or cash flows from the adoption of SFAS No. 123(R), the Company reclassified all deferred equity compensation on the consolidated balance sheet to additional paid-in capital upon its adoption. The period prior to the adoption of SFAS No. 123(R) does not reflect any restated amounts.

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

	<b>2005</b>	<b>2004</b>
Net income applicable to common stock as reported	\$ 176,065	\$ 43,411
Add: Amortization of deferred compensation determined under the intrinsic method for employee stock awards, net of tax	1,584	6,036
Less: Total stock-based employee compensation expense determined under the fair value method for employee stock awards, net of tax	(3,227)	(5,689)
Net income applicable to common stock pro forma	\$ 174,422	\$ 43,758
Basic net income per common share:		
As reported	\$ 0.71	\$ 0.18
Pro forma	\$ 0.70	\$ 0.18
Diluted net income per common share:		
As reported	\$ 0.62	\$ 0.15
Pro forma	\$ 0.62	\$ 0.15



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

***Asset Retirement Obligations***

The Company accounts for asset retirement obligations as determined by SFAS No. 143, *Accounting for Asset Retirement Obligations*, ( SFAS No. 143 ) and FASB Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations, an interpretation of FASB Statement No. 143*, ( FIN No. 47 ). SFAS No. 143 and FIN No. 47 address financial accounting and reporting for legal obligations associated with

**Table of Contents****MetroPCS Communications, Inc. and Subsidiaries****Notes to Consolidated Financial Statements  
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the retirement of tangible long-lived assets and the related asset retirement costs. SFAS No. 143 requires that companies recognize the fair value of a liability for an asset retirement obligation in the period in which it is incurred. When the liability is initially recorded, the entity capitalizes a cost by increasing the carrying amount of the related long-lived asset. Over time, the liability is accreted to its present value each period, and the capitalized cost is depreciated over the estimated useful life of the related asset. Upon settlement of the liability, an entity either settles the obligation for its recorded amount or incurs a gain or loss upon settlement.

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

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

	<b>2006</b>	<b>2005</b>
Beginning asset retirement obligations	\$ 3,522	\$ 1,893
Liabilities incurred	2,394	1,206
Accretion expense	769	423
Ending asset retirement obligations	\$ 6,685	\$ 3,522

***Earnings Per Share***

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

The Series D Preferred Stock and Series E Preferred Stock (collectively, the preferred stock) are participating securities, such that in the event a dividend is declared or paid on the common stock, the Company must simultaneously declare and pay a dividend on the preferred stock as if they had been converted into common stock. In accordance with EITF Issue 03-6, *Participating Securities and the Two-Class Method under FASB Statement No. 128*, (EITF 03-6), the preferred stock is considered a participating security for purposes of computing earnings or loss per common share and, therefore, the preferred stock is included in the computation of basic and diluted earnings per common share using the two-class method, except during periods of net losses. When determining basic earnings per common share under EITF 03-6, undistributed earnings for a period are allocated to a participating security based on the contractual participation rights of the security to share in those earnings as if all of the earnings for the period had been distributed.

***Recent Accounting Pronouncements***

In February 2006, the FASB issued SFAS No. 155, *Accounting for Certain Hybrid Financial Instruments* an amendment of FASB Statements No. 133 and 140, ( SFAS No. 155 ). SFAS No. 155 permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation, clarifies which interest-only strips and principal-only strips are not subject to the requirements of SFAS No. 133, establishes a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation, clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives, and amends FASB Statement No. 140 to eliminate the prohibition

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on a qualifying special purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. SFAS No. 155 is effective for all financial instruments acquired or issued after the beginning of an entity's first fiscal year that begins after September 15, 2006. The adoption of this statement did not have any impact on the financial condition or results of operations of the Company.

In March 2006, the FASB issued SFAS No. 156, *Accounting for Servicing of Financial Assets – an amendment of FASB Statement No. 140*, ( SFAS No. 156 ). SFAS No. 156 amends SFAS No. 140 to require that all separately recognized servicing assets and servicing liabilities be initially measured at fair value, if practicable. SFAS No. 156 permits, but does not require, the subsequent measurement of separately recognized servicing assets and servicing liabilities at fair value. Under SFAS No. 156, an entity can elect subsequent fair value measurement to account for its separately recognized servicing assets and servicing liabilities. Adoption of SFAS No. 156 is required as of the beginning of the first fiscal year that begins after September 15, 2006. The adoption of this statement did not have any impact on the financial condition or results of operations of the Company.

In July 2006, the FASB issued Interpretation No. 48 *Accounting for Uncertainty in Income Taxes*, ( FIN No. 48 ), which clarifies the accounting for uncertainty in income taxes recognized in the financial statements in accordance with SFAS No. 109. FIN No. 48 provides guidance on the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN No. 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosures, and transition. FIN No. 48 is effective for fiscal years beginning after December 15, 2006. While the Company's analysis of the impact of this Interpretation is not yet completed, the Company does not anticipate it will have a material effect on the financial condition or results of operations of the Company.

In September 2006, the SEC issued Staff Accounting Bulletin No. 108, *Considering the Effects of Prior Year Misstatements When Quantifying Misstatements in the Current Year Financial Statements*, ( SAB 108 ), which addresses how the effects of prior year uncorrected misstatements should be considered when quantifying misstatements in current year financial statements. SAB 108 requires companies to quantify misstatements using a balance sheet and income statement approach and to evaluate whether either approach results in quantifying an error that is material in light of relevant quantitative and qualitative factors. When the effect of initial adoption is material, companies may record the effect as a cumulative effect adjustment to beginning of year retained earnings. SAB 108 is effective for annual financial statements covering the first fiscal year ending after November 15, 2006. The Company adopted this interpretation as of December 31, 2006. The adoption of this statement did not have any impact on the financial condition or results of operations of the Company.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*, ( SFAS No. 157 ), which defines fair value, establishes a framework for measuring fair value in GAAP and expands disclosure about fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. The Company will be required to adopt SFAS No. 157 on January 1, 2008. The Company has not completed its evaluation of the effect of SFAS No. 157.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities – Including an amendment of FASB Statement No. 115*, ( SFAS No. 159 ), which permits entities to choose to measure many financial instruments and certain other items at fair value. The objective of SFAS No. 159 is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings

caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. The Company will be required to adopt SFAS No. 159 on January 1, 2008. The Company has not completed its evaluation of the effect of SFAS No. 159.

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December 31, 2006, 2005 and 2004 (Continued)****3. Majority-Owned Subsidiary:**

On November 24, 2004, MetroPCS, through its wholly-owned subsidiaries, together with C9 Wireless, LLC, an independent, unaffiliated third-party, formed a limited liability company, Royal Street Communications, that qualified to bid for closed licenses and to receive bidding credits as a very small business on open licenses in FCC Auction No. 58. MetroPCS indirectly owns 85% of the limited liability company member interest of Royal Street Communications, but may elect only two of five members of the Royal Street Communications management committee, which has the full power to direct the management of Royal Street. Royal Street Communications has formed limited liability company subsidiaries which hold all licenses won in Auction No. 58. At Royal Street Communications request and subject to Royal Street Communications control and direction, MetroPCS is assisting in the construction of Royal Street s networks and has agreed to purchase, via a resale arrangement, as much as 85% of the engineered service capacity of Royal Street s networks. The consolidated financial statements include the balances and results of operations of MetroPCS and its wholly-owned subsidiaries as well as the balances and results of operations of Royal Street. The Company consolidates its interest in Royal Street in accordance with FIN 46(R). Royal Street qualifies as a variable interest entity under FIN 46(R) because the Company is the primary beneficiary of Royal Street and will absorb all of Royal Street s expected losses. Royal Street does not guarantee MetroPCS Wireless, Inc. s ( Wireless ) obligations under its senior secured credit facility, pursuant to which Wireless may borrow up to \$1.7 billion, as amended, (the Senior Secured Credit Facility ) and its \$1.0 billion of 91/4% Senior Notes due 2014 (the 91/4% Senior Notes ). See the non-guarantor subsidiaries information in Note 19 for the financial position and results of operations of Royal Street. C9 Wireless, LLC, a beneficial interest holder in Royal Street, has no recourse to the general credit of MetroPCS. All intercompany accounts and transactions between the Company and Royal Street have been eliminated in the consolidated financial statements.

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

**4. Short-Term Investments:**

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

		2006		
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Aggregate Fair Value
United States government and agencies	\$ 2,000	\$	\$ (15)	\$ 1,985

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Auction rate securities	290,055		(30)	290,025
Corporate bonds	98,428	213		98,641
Total short-term investments	\$ 390,483	\$ 213	\$ (45)	\$ 390,651

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		2005		
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Aggregate Fair Value
United States government and agencies	\$ 28,999	\$	\$ (241)	\$ 28,758
Auction rate securities	333,819			333,819
Corporate bonds	27,788	57		27,845
Total short-term investments	\$ 390,606	\$ 57	\$ (241)	\$ 390,422

The cost and aggregate fair values of short-term investments by contractual maturity at December 31, 2006 were as follows (in thousands):

	Amortized Cost	Aggregate Fair Value
Less than one year	\$ 215,618	\$ 215,801
Due in 1 - 2 years		
Due in 2 - 5 years		
Due after 5 years	174,865	174,850
Total	\$ 390,483	\$ 390,651

**5. Derivative Instruments and Hedging Activities:**

On June 27, 2005, Wireless entered into a three-year interest rate cap agreement, as required by its First Lien Credit Agreement, maturing May 31, 2011, and Second Lien Credit Agreement maturing May 31, 2012, (collectively, the Credit Agreements), to mitigate the impact of interest rate changes. An interest rate cap represents a right to receive cash if interest rates rise above a contractual strike rate. At December 31, 2005, the interest rate cap agreement has a notional value of \$450.0 million and Wireless will receive payments on a semiannual basis if the six-month LIBOR interest rate exceeds 3.75% through January 1, 2007 and 6.00% through the agreement maturity date of July 1, 2008. Wireless paid \$1.9 million upon execution of the interest rate cap agreement. This financial instrument is reported in long-term investments at fair market value, which was \$5.1 million as of December 31, 2005. The change in fair value of \$3.2 million is reported in accumulated other comprehensive income in the consolidated balance sheets, net of income taxes in the amount of \$1.3 million. On November 21, 2006, Wireless terminated its interest rate cap agreement and received proceeds of approximately \$4.3 million upon termination of the agreement. The proceeds from the termination of the agreement approximated its carrying value. The remaining unrealized gain associated with the interest rate cap agreement was reclassified out of accumulated other comprehensive income into earnings as a



reduction of interest expense.

On November 21, 2006, Wireless entered into a three-year interest rate protection agreement to manage the Company's interest rate risk exposure and fulfill a requirement of Wireless Senior Secured Credit Facility. The agreement covers a notional amount of \$1.0 billion and effectively converts this portion of Wireless variable rate debt to fixed rate debt. The quarterly interest settlement periods begin on February 1, 2007. The interest rate protection agreement expires on February 1, 2010. This financial instrument is reported in long-term investments at fair market value, which was approximately \$1.9 million as of December 31, 2006. The change in fair value of \$1.9 million is reported in accumulated other comprehensive income in the consolidated balance sheets, net of income taxes in the amount of approximately \$0.8 million.

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December 31, 2006, 2005 and 2004 (Continued)**

The interest rate protection agreement has been designated as a cash flow hedge. If a derivative is designated as a cash flow hedge and the hedging relationship qualifies for hedge accounting under the provisions of SFAS No. 133, the effective portion of the change in fair value of the derivative is recorded in accumulated other comprehensive income and reclassified to interest expense in the period in which the hedged transaction affects earnings. The ineffective portion of the change in fair value of a derivative qualifying for hedge accounting is recognized in earnings in the period of the change.

At inception of the hedge and quarterly thereafter, the Company performs an assessment to determine whether changes in the fair values or cash flows of the derivatives are deemed highly effective in offsetting changes in the fair values or cash flows of the hedged transaction. If at any time subsequent to the inception of the hedge, the assessment indicates that the derivative is no longer highly effective as a hedge, the Company will discontinue hedge accounting and recognize all subsequent derivative gains and losses in results of operations.

**6. Intangible Assets:**

The changes in the carrying value of intangible assets during the years ended December 31, 2006 and 2005 are as follows (in thousands):

	<b>FCC Licenses</b>	<b>Microwave Relocation Costs</b>
Balance at December 31, 2004	\$ 154,144	\$ 9,566
Additions	528,930	
Reductions	(1,775)	(379)
Balance at December 31, 2005	\$ 681,299	\$ 9,187
Additions	1,391,586	
Balance at December 31, 2006	\$ 2,072,885	\$ 9,187

FCC licenses represent the 14 C-Block PCS licenses acquired by the Company in the FCC auction in May 1996, the AWS licenses acquired in FCC Auction 66 and licenses acquired from other carriers. FCC licenses also represent licenses acquired in 2005 by Royal Street in Auction No. 58.

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

On April 19, 2004, the Company acquired four PCS licenses for an aggregate purchase price of \$11.5 million. The PCS licenses cover 15 MHz of spectrum in each of the basic trading areas of Modesto, Merced, Eureka, and Redding, California.

On October 29, 2004, the Company acquired two PCS licenses for an aggregate purchase price of \$43.5 million. The PCS licenses cover 10 MHz of spectrum in each of the basic trading areas of Tampa-St. Petersburg-Clearwater, Florida, and Sarasota-Bradenton, Florida.

On November 28, 2004, the Company executed a license purchase agreement by which the Company agreed to acquire 10 MHz of spectrum in the basic trading area of Detroit, Michigan and certain counties of the basic trading area of Dallas/Ft. Worth, Texas for \$230.0 million.

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**MetroPCS Communications, Inc. and Subsidiaries**

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

On May 11, 2005, the Company completed the sale of a 10 MHz portion of its 30 MHz PCS license in the San Francisco-Oakland-San Jose, California basic trading area for cash consideration of \$230.0 million. The sale was structured as a like-kind exchange under Section 1031 of the Internal Revenue Code of 1986, as amended, through which the Company's right, title and interest in and to the divested spectrum was exchanged for the spectrum acquired in Dallas/Ft. Worth, Texas and Detroit, Michigan through a license purchase agreement for an aggregate purchase price of \$230.0 million. The purchase of the spectrum in Dallas/Ft. Worth and Detroit was accomplished in two steps with the first step of the exchange occurring on February 23, 2005 and the second step occurring on May 11, 2005 when the Company consummated the sale of 10 MHz of spectrum for the San Francisco-Oakland-San Jose basic trading area. The sale of spectrum resulted in a gain on disposal of asset in the amount of \$228.2 million.

On July 7, 2005, the Company acquired a 10 MHz F-Block PCS license for Grayson and Fannin counties in the basic trading area of Sherman-Denison, Texas for an aggregate purchase price of \$0.9 million.

On August 12, 2005, the Company closed on the purchase of a 10 MHz F-Block PCS license in the basic trading area of Bakersfield, California for an aggregate purchase price of \$4.0 million.

On December 21, 2005, the FCC granted Royal Street 10 MHz of spectrum in the Los Angeles, California; Orlando, Lakeland-Winter Haven, Jacksonville, Melbourne-Titusville, and Gainesville, Florida basic trading areas. Royal Street, as the high bidder in Auction No. 58, had previously paid approximately \$294.0 million to the FCC for these PCS licenses.

On November 29, 2006, the Company was granted AWS licenses as a result of FCC Auction 66, for a total aggregate purchase price of approximately \$1.4 billion. These new licenses cover six of the 25 largest metropolitan areas in the United States. The east coast expansion opportunities include the entire east coast corridor from Philadelphia to Boston, including New York City, as well as the entire states of New York, Connecticut and Massachusetts. In the western United States, the new expansion opportunities include the San Diego, Portland, Seattle and Las Vegas metropolitan areas. The balance supplements or expands the geographic boundaries of the Company's existing operations in Dallas/Ft. Worth, Detroit, Los Angeles, San Francisco and Sacramento.

On February 21, 2007, the FCC granted the Company's applications for the renewal of its 14 C-Block PCS licenses acquired in the FCC auction in May 1996, as well as the applications for the renewal of certain other licenses subsequently acquired from other carriers.

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December 31, 2006, 2005 and 2004 (Continued)****7. Accounts Payable and Accrued Expenses:**

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

	<b>2006</b>	<b>2005</b>
Accounts payable	\$ 90,084	\$ 29,430
Book overdraft	21,288	9,920
Accrued accounts payable	111,974	69,611
Accrued liabilities	9,405	7,590
Payroll and employee benefits	20,645	12,808
Accrued interest	24,529	17,578
Taxes, other than income	42,882	23,211
Income taxes	4,874	4,072
Accounts payable and accrued expenses	\$ 325,681	\$ 174,220

**8. Long-Term Debt:**

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

	<b>2006</b>	<b>2005</b>
Microwave relocation obligations	\$	\$ 2,690
Credit Agreements		900,000
91/4% Senior Notes	1,000,000	
Senior Secured Credit Facility	1,596,000	
Total	2,596,000	902,690
Add: unamortized premium on debt		2,864
Total debt	2,596,000	905,554
Less: current maturities	(16,000)	(2,690)
Total long-term debt	\$ 2,580,000	\$ 902,864

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

**For the Year Ending December 31,**

2007	\$ 16,000
2008	16,000
2009	16,000
2010	16,000
2011	16,000
Thereafter	2,516,000
Total	\$ 2,596,000

***Bridge Credit Agreement***

In February 2005, Wireless entered into a secured bridge credit facility, dated as of February 22, 2005 (as amended, the *Bridge Credit Agreement* ). The aggregate credit commitments available and funded under the

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

***FCC Debt***

On March 2, 2005, in connection with the sale of 10 MHz of spectrum in the San Francisco-Oakland-San Jose, California basic trading area, the Company repaid the outstanding principal balance of \$12.2 million in debt payable to the FCC. This debt was incurred in connection with the original acquisition of the 30 MHz of spectrum for the San Francisco-Oakland-San Jose basic trading area. The repayment resulted in a loss on extinguishment of debt of \$0.9 million.

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

***\$150 Million 103/4% Senior Notes***

On September 29, 2003, MetroPCS, Inc. completed the sale of \$150.0 million of 103/4% Senior Notes due 2011 (the 103/4% Senior Notes ). On May 10, 2005, holders of all of the 103/4% Senior Notes tendered their 103/4% Senior Notes in response to MetroPCS, Inc.'s cash tender offer and consent solicitation. As a result, MetroPCS, Inc. executed a supplemental indenture governing the 103/4% Senior Notes to eliminate substantially all of the restrictive covenants and event of default provisions in the indenture, to amend other provisions of the indenture, and to waive any and all defaults and events of default that may have existed under the indenture. On May 31, 2005, MetroPCS, Inc. purchased all of its outstanding 103/4% Senior Notes in the tender offer. MetroPCS, Inc. paid the holders of the 103/4% Senior Notes \$178.9 million plus accrued interest of \$2.7 million in the tender offer, resulting in a loss on extinguishment of debt of \$34.0 million.

***First and Second Lien Credit Agreements***

On May 31, 2005, MetroPCS, Inc. and Wireless, both wholly-owned subsidiaries of MetroPCS, entered into the Credit Agreements, which provided for total borrowings of up to \$900.0 million. On May 31, 2005, Wireless borrowed \$500.0 million under the First Lien Credit Agreement and \$250.0 million under the Second Lien Credit Agreement. On December 19, 2005, Wireless entered into amendments to the Credit Agreements and borrowed an additional \$50.0 million under the First Lien Credit Agreement and an additional \$100.0 million under the Second Lien Credit Agreement.

On November 3, 2006, Wireless paid the lenders under the Credit Agreements \$931.5 million, which included a premium of approximately \$31.5 million, plus accrued interest of \$8.6 million to extinguish the aggregate outstanding principal balance under the Credit Agreements. The repayment resulted in a loss on extinguishment of debt in the amount of approximately \$42.7 million.

***\$1.25 Billion Exchangeable Senior Secured Credit Agreement***

In July 2006, MetroPCS II, Inc. ( MetroPCS II ), a wholly-owned subsidiary of MetroPCS, entered into the Secured Bridge Credit Facility. The aggregate credit commitments available under the Secured Bridge Credit Facility were \$1.25 billion and were fully funded.

On November 3, 2006, MetroPCS II repaid the aggregate outstanding principal balance under the Secured Bridge Credit Facility of \$1.25 billion and accrued interest of \$5.9 million. As a result, the Company recorded a loss on extinguishment of debt of approximately \$7.0 million.



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***\$250 Million Exchangeable Senior Unsecured Credit Agreement***

In October 2006, MetroPCS IV, Inc. ( MetroPCS IV ) entered into the Unsecured Bridge Credit Facility. The aggregate credit commitments available under the Unsecured Bridge Credit Facility totaled \$250.0 million and were fully funded.

On November 3, 2006, MetroPCS IV repaid the aggregate outstanding principal balance under the Unsecured Bridge Credit Facility of \$250.0 million and accrued interest of \$1.2 million. As a result, the Company recorded a loss on extinguishment of debt of approximately \$2.4 million.

***\$1.0 Billion 91/4% Senior Notes***

On November 3, 2006, Wireless completed the sale of the 91/4% Senior Notes. The 91/4% Senior Notes are unsecured obligations and are guaranteed by MetroPCS, MetroPCS, Inc., and all of Wireless' direct and indirect wholly-owned subsidiaries, but are not guaranteed by Royal Street. Interest is payable on the 91/4% Senior Notes on May 1 and November 1 of each year, beginning on May 1, 2007. Wireless may, at its option, redeem some or all of the 91/4% Senior Notes at any time on or after November 1, 2010 for the redemption prices set forth in the indenture governing the 91/4% Senior Notes. In addition, Wireless may also redeem up to 35% of the aggregate principal amount of the 91/4% Senior Notes with the net cash proceeds of certain sales of equity securities. The net proceeds of the sale were approximately \$978.0 million after underwriter fees and other debt issuance costs of \$22.0 million. The net proceeds from the sale of the 91/4% Senior Notes, together with the borrowings under the Senior Secured Credit Facility, were used to repay amounts owed under the Credit Agreements, Secured Bridge Credit Facility and Unsecured Bridge Credit Facility, and to pay related premiums, fees and expenses, as well as for general corporate purposes.

***Senior Secured Credit Facility***

On November 3, 2006, Wireless entered into the Senior Secured Credit Facility, pursuant to which Wireless may borrow up to \$1.7 billion. The Senior Secured Credit Facility consists of a \$1.6 billion term loan facility and a \$100.0 million revolving credit facility. On November 3, 2006, Wireless borrowed \$1.6 billion under the Senior Secured Credit Facility. The term loan facility will be repayable in quarterly installments in annual aggregate amounts equal to 1% of the initial aggregate principal amount of \$1.6 billion. The term loan facility will mature in seven years and the revolving credit facility will mature in five years. The net proceeds from the borrowings under the Senior Secured Credit Facility, together with the sale of the 91/4% Senior Notes, were used to repay amounts owed under the Credit Agreements, Secured Bridge Credit Facility and Unsecured Bridge Credit Facility, and to pay related premiums, fees and expenses, as well as for general corporate purposes.

The facilities under the Senior Secured Credit Facility are guaranteed by MetroPCS, MetroPCS, Inc. and each of Wireless' direct and indirect present and future wholly-owned domestic subsidiaries. The facilities are not guaranteed by Royal Street, but Wireless pledged the promissory note that Royal Street had given it in connection with amounts borrowed by Royal Street from Wireless and the limited liability company member interest held in Royal Street. The Senior Secured Credit Facility contains customary events of default, including cross defaults. The obligations are also secured by the capital stock of Wireless as well as substantially all of Wireless' present and future assets and each of its

direct and indirect present and future wholly-owned subsidiaries (except as prohibited by law and certain permitted exceptions) but excludes Royal Street.

The interest rate on the outstanding debt under the Senior Secured Credit Facility is variable. The rate as of December 31, 2006 was 7.875%. On November 21, 2006, Wireless entered into a three-year interest rate protection agreement to manage the Company's interest rate risk exposure and fulfill a requirement of the

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Senior Secured Credit Facility (See Note 5). As of December 31, 2006, there was a total of approximately \$1.6 billion outstanding under the Senior Secured Credit Facility, of which \$16.0 million is reported in current maturities of long-term debt and approximately \$1.6 billion is reported as long-term debt on the accompanying consolidated balance sheets.

On February 20, 2007, Wireless entered into an amendment to the Senior Secured Credit Facility. Under the amendment, the margin used to determine the Senior Secured Credit Facility interest rate was reduced to 2.25% from 2.50%.

***Restructuring***

On November 3, 2006, in connection with the closing of the 9 1/4% Senior Notes, the entry into the Senior Secured Credit Facility and the repayment of all amounts outstanding under the Credit Agreements, the Secured Bridge Credit Facility and the Unsecured Bridge Credit Facility, the Company consummated a restructuring transaction. As a result of the restructuring transaction, Wireless became a wholly-owned direct subsidiary of MetroPCS, Inc. (formerly MetroPCS V, Inc.), which is a wholly-owned direct subsidiary of MetroPCS. MetroPCS and MetroPCS, Inc., along with each of Wireless' wholly-owned subsidiaries (which excludes Royal Street), guarantee the 9 1/4% Senior Notes and the obligations under the Senior Secured Credit Facility. MetroPCS, Inc. pledged the capital stock of Wireless as security for the obligations under the Senior Secured Credit Facility. All of the Company's FCC licenses and the Company's interest in Royal Street are held by Wireless and its wholly-owned subsidiaries.

**9. Concentrations:**

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

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

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

**10. Commitments and Contingencies:**

The Company has entered into non-cancelable operating lease agreements to lease facilities, certain equipment and sites for towers and antennas required for the operation of its wireless networks. Future

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minimum rental payments required for all non-cancelable operating leases at December 31, 2006 are as follows (in thousands):

**For the Year Ending December 31,**

2007	\$ 88,639
2008	89,782
2009	91,091
2010	92,570
2011	86,707
Thereafter	279,415
 Total	 \$ 728,204

Total rent expense for the years ended December 31, 2006, 2005 and 2004 was \$85.5 million, \$51.6 million and \$37.7 million, respectively.

On June 6, 2005, Wireless entered into a general purchase agreement with a vendor for the purchase of PCS CDMA system products ( CDMA Products ) and services, including without limitation, wireless base stations, switches, power, cable and transmission equipment and services, with an initial term of three years. The agreement provides for both exclusive and non-exclusive pricing for CDMA Products and the agreement may be renewed at Wireless option on an annual basis for three subsequent years after the conclusion of the initial three-year term. If Wireless fails to purchase exclusively CDMA Products from the vendor, it may have to pay certain liquidated damages based on the difference in prices between exclusive and non-exclusive prices for CDMA Products already purchased since the effective date of the agreement, which may be material to Wireless.

The Company has entered into pricing agreements with various handset manufacturers for the purchase of wireless handsets at specified prices. The terms of these agreements expire on various dates during the year ending December 31, 2007. In addition, the Company entered into an agreement with a handset manufacturer for the purchase of 475,000 handsets at a specified price by September 30, 2007.

***EV-DO Revision A***

The Company acquired spectrum in two of its markets during 2005 subject to certain expectations communicated to the United States Department of Justice (the DOJ ) about how it would use such spectrum. As a result of a delay in the availability of EV-DO Revision A with VoIP, the Company has redeployed EV-DO network assets at certain cell sites in those markets in order to serve its existing customers. There have been no asserted claims or assessments to date and accordingly, no liability has been recorded as of December 31, 2006.

***Litigation***

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

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

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**MetroPCS Communications, Inc. and Subsidiaries**

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***Rescission Offer***

Certain options granted under the Company's 1995 Stock Option Plan and 2004 Equity Incentive Plan may not have been exempt from registration or qualification under federal securities laws and the securities laws of certain states. As a result, the Company is considering making a rescission offer to the holders of certain options. If this rescission offer is made and accepted, the Company could be required to make aggregate payments to the holders of these options of up to \$2.6 million, which includes statutory interest, based on options outstanding as of December 31, 2006. Federal securities laws do not provide that a rescission offer will terminate a purchaser's right to rescind a sale of a security that was not registered as required. If any or all of the offerees reject the rescission offer, the Company may continue to be liable for this amount under federal and state securities laws. Management does not believe that this rescission offer will have a material effect on the Company's results of operations, cash flows or financial position.

***AWS Licenses Acquired in Auction 66***

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

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

In July 2000, MetroPCS, Inc. executed a Securities Purchase Agreement, which was subsequently amended (as amended, the "SPA"). Under the SPA, MetroPCS, Inc. issued shares of Series D Preferred Stock. In July 2004, each share of MetroPCS, Inc. Series D Preferred Stock was converted into a share of Series D Preferred Stock of MetroPCS (See Note 1). Dividends accrue at an annual rate of 6% of the liquidation value of \$100 per share on the Series D Preferred Stock. Dividends of \$21.0 million, \$21.0 million and \$21.0 million were accrued for the years ended December 31, 2006, 2005 and 2004, respectively, and are included in the Series D Preferred Stock balance.

Each share of Series D Preferred Stock will automatically convert into common stock upon (i) completion of a Qualified Public Offering (as defined in the SPA), (ii) MetroPCS' common stock trading (or in the case of a merger or consolidation of MetroPCS with another company, other than a sale or change of control of MetroPCS, the shares received in such merger or consolidation having traded immediately prior to such merger and consolidation) on a national securities exchange for a period of 30 consecutive trading days above a price that implies a market valuation of the Series D Preferred Stock in excess of twice the initial purchase price of the Series D Preferred Stock, or (iii) the date specified by the holders of two-thirds of the outstanding Series D Preferred Stock. The Series D Preferred Stock

and the accrued but unpaid dividends thereon are convertible into common stock at \$3.13 per share of common stock, which per share amount is subject to adjustment in accordance with the terms of MetroPCS Second Amended and Restated Articles of Incorporation. If not previously converted, MetroPCS is required to redeem all outstanding shares of Series D Preferred Stock on July 17, 2015, at the liquidation value plus accrued but unpaid dividends.

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

the per share liquidation value, plus

the greater of:

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

the amount that would have been paid in respect of such share had it been converted into common stock immediately prior to the event that triggered payment of the liquidation preference, net of the liquidation value of the Series D Preferred Stock and the Series E Preferred Stock.

The SPA defines a number of events of noncompliance. Upon an occurrence of an event of noncompliance, the holders of not less than two-thirds of the then outstanding shares of Series D Preferred Stock can request MetroPCS to redeem the outstanding shares at an amount equal to the liquidation value plus accrued but unpaid dividends. The Company believes that there was no uncured or unwaived event of noncompliance at December 31, 2006.

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

MetroPCS entered into a stock purchase agreement, dated as of August 30, 2005, under which MetroPCS issued 500,000 shares of Series E Preferred Stock for \$50.0 million in cash. Total proceeds to MetroPCS were \$46.7 million, net of transaction costs of approximately \$3.3 million. The Series E Preferred Stock and the Series D Preferred Stock rank equally with respect to dividends, conversion rights and liquidation preferences. Dividends on the Series E Preferred Stock accrue at an annual rate of 6% of the liquidation value of \$100 per share. Dividends of \$3.0 and \$1.0 million were accrued for the years ended December 31, 2006 and 2005, respectively, and are included in the Series E Preferred Stock balance.

Each share of Series E Preferred Stock will be converted into common stock of MetroPCS upon (i) the completion of a Qualifying Public Offering, (as defined in the Second Amended and Restated Stockholders Agreement), (ii) the common stock trading (or, in the case of a merger or consolidation of MetroPCS with another company, other than as a sale or change of control of MetroPCS, the shares received in such merger or consolidation having traded immediately prior to such merger or consolidation) on a national securities exchange for a period of 30 consecutive trading days above a price implying a market valuation of the Series D Preferred Stock over twice the Series D Preferred Stock initial purchase price, or (iii) the date specified by the holders of two-thirds of the Series E Preferred Stock. The Series E Preferred Stock is convertible into common stock at \$9.00 per share, which per share amount is subject to adjustment in accordance with the terms of the Second Amended and Restated Articles of Incorporation of MetroPCS. If not previously converted, MetroPCS is required to redeem all outstanding shares of Series E Preferred Stock on July 17, 2015, at the liquidation preference of \$100 per share plus accrued but unpaid dividends. In 2005



MetroPCS, in connection with the sale of the Series E Preferred Stock, increased the total authorized Preferred Stock to 25,000,000 shares, par value \$0.0001 per share.

On October 25, 2005, pursuant to the terms of the stock purchase agreement, the investors in the Series E Preferred Stock also conducted a tender offer in which they purchased outstanding Series D Preferred Stock and common stock. The Company believes that there was no uncured or unwaived event of noncompliance at December 31, 2006.

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**MetroPCS Communications, Inc. and Subsidiaries**

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**13. Capitalization:**

***Warrants***

From inception through February 1998, MetroPCS, Inc. issued various warrants to purchase common stock in conjunction with sales of stock and in exchange for consulting services, which were converted into warrants in MetroPCS in July 2004. As of December 31, 2006, there were no remaining warrants outstanding.

During the year ended December 31, 2006, 526,950 warrants, with an exercise price of \$0.0009 per warrant, were exercised for 526,950 shares of common stock.

***Redemption***

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

***Conversion Rights***

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

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

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

As part of the stock purchase agreement for the Series E Preferred Stock, MetroPCS filed its Second Amended and Restated Certificate of Incorporation ( Revised Articles ) and MetroPCS and certain of its stockholders entered into the Second Amended and Restated Stockholders Agreement, dated as of August 30, 2005 ( Stockholders Agreement ). The Revised Articles and Stockholders Agreement required, among other things, that MetroPCS cause a change in control

by the later of December 31, 2005 or the date on or after which the FCC's grant of MetroPCS's application to transfer control became final ( "Class A Termination Event" ). The Class A Termination Event triggers, among other things, the conversion of all of the Class A Common Stock into MetroPCS common stock and the extinguishment of the special voting and board appointment rights of the Class A Common Stock. In addition, certain supermajority voting rights held by the Series D Preferred Stock and Series E Preferred Stock are also extinguished. The stock purchase agreement for the Series E Preferred Stock requires that under the new structure MetroPCS have a nine member Board of Directors. In addition, after the Class A Termination Event, votes on significant matters requiring a stockholder

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vote are generally by vote of the holders of a majority of all of the shares of capital stock of MetroPCS, with the holders of the Series D Preferred Stock and Series E Preferred Stock voting with holders of the common stock on an as converted basis. On November 1, 2005, MetroPCS wholly-owned licensee subsidiaries filed transfer of control applications with the FCC to seek the FCC's consent to the Class A Termination Event. The FCC applications were approved and the grants were listed in an FCC Public Notice on November 8, 2005. The grants became final on December 19, 2005 and the Class A Termination Event occurred on December 31, 2005. The net effect of these changes is that the holders of Class A Common Stock have relinquished affirmative control of MetroPCS to the stockholders as a whole. There was no significant financial accounting impact.

***Common Stock Issued to Directors***

Non-employee members of MetroPCS Board of Directors receive compensation for serving on the Board of Directors, pursuant to MetroPCS Non-Employee Director Remuneration Plan. The annual retainer provided under the Non-Employee Director Remuneration Plan may be paid in cash, common stock, or a combination of cash and common stock at the election of each director. During the years ended December 31, 2006 and 2005, non-employee members of the Board of Directors were issued 49,725 and 79,437 shares of common stock, respectively, as payment of their annual retainer.

**14. Share-Based Payments:**

Prior to the first quarter of 2006, the Company measured stock-based compensation expense for its stock-based employee compensation plans using the intrinsic value method prescribed by APB No. 25, as allowed by SFAS No. 123.

Effective January 1, 2006, the Company adopted the fair value recognition provisions of SFAS No. 123(R) using the modified prospective transition method. Under that transition method, compensation expense recognized beginning on that date includes: (a) compensation expense for all share-based payments granted prior to, but not yet vested as of, January 1, 2006, based on the grant-date fair value estimated in accordance with the original provisions of SFAS No. 123, and (b) compensation expense for all share-based payments granted on or after January 1, 2006, based on the grant-date fair value estimated in accordance with the provisions of SFAS No. 123(R). Although there was no material impact on the Company's financial position, results of operations or cash flows from the adoption of SFAS No. 123(R), the Company reclassified all deferred equity compensation on the consolidated balance sheet to additional paid-in capital upon its adoption. The period prior to the adoption of SFAS No. 123(R) does not reflect any restated amounts.

MetroPCS has two stock option plans (the Option Plans) under which it grants options to purchase common stock of MetroPCS: the Second Amended and Restated 1995 Stock Option Plan, as amended (1995 Plan), and the Amended and Restated 2004 Equity Incentive Compensation Plan, as amended (2004 Plan). The 1995 Plan was terminated in November 2005 and no further awards can be made under the 1995 Plan, but all options granted before November 2005 will remain valid in accordance with their original terms. As of December 31, 2006, the maximum number of shares reserved for the 2004 Plan was 18,600,000 shares. In December 2006, the 2004 Plan was amended to increase the number of shares of common stock reserved for issuance under the plan from 14,100,000 to a total of 18,600,000 shares. In February 2007, the 2004 Plan was amended to increase the number of shares of common stock

reserved for issuance under the plan from 18,600,000 to a total of 40,500,000 shares. Vesting periods and terms for stock option grants are determined by the plan administrator, which is MetroPCS Board of Directors for the 1995 Plan and the Compensation Committee of the Board of Directors of MetroPCS for the 2004 Plan. No option granted under the 1995 Plan have a term in excess of fifteen years and no option granted under the 2004 Plan shall have a term in excess

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of ten years. Options granted during the years ended December 31, 2006, 2005 and 2004 have a vesting period of one to four years.

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

The value of the options is determined by using a Black-Scholes pricing model that includes the following variables: 1) exercise price of the instrument, 2) fair market value of the underlying stock on date of grant, 3) expected life, 4) estimated volatility and 5) the risk-free interest rate. The Company utilized the following weighted-average assumptions in estimating the fair value of the option grants in the years ended December 31, 2006, 2005 and 2004:

	<b>2006</b>	<b>2005</b>	<b>2004</b>
Expected dividends	0.00%	0.00%	0.00%
Expected volatility	35.04%	50.00%	55.00%
Risk-free interest rate	4.64%	4.24%	3.22%
Expected lives in years	5.00	5.00	5.00
Weighted-average fair value of options:			
Granted at below fair value	\$ 10.16	\$	\$ 2.88
Granted at fair value	\$ 3.75	\$ 3.44	\$ 2.64
Weighted-average exercise price of options:			
Granted at below fair value	\$ 1.49	\$	\$ 4.46
Granted at fair value	\$ 9.95	\$ 7.13	\$ 5.25

The Black-Scholes model requires the use of subjective assumptions including expectations of future dividends and stock price volatility. Such assumptions are only used for making the required fair value estimate and should not be considered as indicators of future dividend policy or stock price appreciation. Because changes in the subjective assumptions can materially affect the fair value estimate, and because employee stock options have characteristics significantly different from those of traded options, the use of the Black-Scholes option pricing model may not provide a reliable estimate of the fair value of employee stock options.

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A summary of the status of the Company's Option Plans as of December 31, 2006, 2005 and 2004, and changes during the periods then ended, is presented in the table below:

	<b>2006</b>		<b>2005</b>		<b>2004</b>	
	<b>Shares</b>	<b>Weighted Average Exercise Price</b>	<b>Shares</b>	<b>Weighted Average Exercise Price</b>	<b>Shares</b>	<b>Weighted Average Exercise Price</b>
Outstanding, beginning of year	14,502,210	\$ 4.18	32,448,855	\$ 0.92	31,057,182	\$ 0.61
Granted	11,369,793	\$ 9.65	5,838,534	\$ 7.13	2,671,518	\$ 4.76
Exercised	(1,148,328)	\$ 2.39	(22,669,671)	\$ 0.38	(635,928)	\$ 0.65
Forfeited	(1,224,213)	\$ 4.22	(1,115,508)	\$ 4.04	(643,917)	\$ 2.02
Outstanding, end of year	23,499,462	\$ 6.91	14,502,210	\$ 4.18	32,448,855	\$ 0.92
Options vested or expected to vest at year-end	20,127,759	\$ 6.55				
Options exercisable at year-end	10,750,692	\$ 3.78	10,985,577	\$ 3.23	32,448,855	\$ 0.92
Options vested at year-end	8,940,615	\$ 3.59	6,696,330	\$ 1.87	26,976,972	\$ 0.49

Options outstanding under the Option Plans as of December 31, 2006 have a total aggregate intrinsic value of approximately \$103.9 million and a weighted average remaining contractual life of 8.01 years. Options outstanding under the Option Plans as of December 31, 2005 and 2004 have a weighted average remaining contractual life of 7.80 and 7.23 years, respectively. Options vested or expected to vest under the Option Plans as of December 31, 2006 have a total aggregate intrinsic value of approximately \$96.2 million and a weighted average remaining contractual life of 7.83 years. Options exercisable under the Option Plans as of December 31, 2006 have a total aggregate intrinsic value of approximately \$81.2 million and a weighted average remaining contractual life of 6.63 years.

The following table summarizes information about stock options outstanding at December 31, 2006:

	<b>Options Outstanding</b>		<b>Options Vested</b>
	<b>Weighted</b>	<b>Weighted</b>	<b>Weighted</b>

<b>Exercise Price</b>	<b>Number of Shares</b>	<b>Average Contractual Life</b>	<b>Average Exercise Price</b>	<b>Number of Shares</b>	<b>Average Exercise Price</b>
\$0.08 - \$ 0.33	851,991	5.93	\$ 0.12	851,991	\$ 0.12
\$0.34 - \$ 1.57	3,733,773	4.74	\$ 1.57	3,728,109	\$ 1.57
\$1.58 - \$ 6.31	2,961,708	6.80	\$ 3.97	2,083,725	\$ 3.72
\$6.32 - \$ 7.15	7,872,015	8.58	\$ 7.14	2,255,292	\$ 7.14
\$7.16 - \$11.33	8,079,975	9.64	\$ 10.95	21,498	\$ 11.07

In 2004, Congress passed the American Job Creation Act of 2004 which changed certain rules with respect to deferred compensation, including options to purchase MetroPCS common stock which were granted below the fair market value of the common stock as of the grant date. MetroPCS had previously granted certain options to purchase its common stock under the 1995 Plan at exercise prices which MetroPCS believes were below the fair market value of its common stock at the time of grant. In December 2005, MetroPCS offered to amend the stock option grants of all affected employees by increasing the exercise price of such affected stock option grants to the fair value of MetroPCS common stock as of the date of grant and granting additional stock options which vested 50% on January 1, 2006 and 50% on January 1, 2007 at the fair market



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value of MetroPCS common stock as of the grant date provided that the employee remained employed by the Company on those dates. The total number of affected stock options was 2,617,140 and MetroPCS granted 407,274 additional stock options.

During the year ended December 31, 2006, 1,148,328 options granted under the Option Plans were exercised for 1,148,328 shares of common stock. The intrinsic value of these options was approximately \$9.0 million and total proceeds were approximately \$2.7 million for the year ended December 31, 2006. During the year ended December 31, 2005, 22,669,671 options granted under the Option Plans were exercised for 22,669,671 shares of common stock. The intrinsic value of these options was approximately \$152.8 million and total proceeds were approximately \$8.6 million for the year ended December 31, 2005. During the year ended December 31, 2004, 635,928 options granted under the Option Plans were exercised for 635,928 shares of common stock. The intrinsic value of these options was approximately \$2.1 million and total proceeds were approximately \$0.4 million for the year ended December 31, 2004.

In October 2005, Madison Dearborn Capital Partners and TA Associates consummated a tender offer in which they purchased from existing stockholders shares of Series D Preferred Stock and common stock in MetroPCS. In connection with this transaction, 22,102,287 options granted under the Option Plans were exercised for 22,102,287 shares of common stock. MetroPCS received no proceeds from this transaction.

The following table summarizes information about unvested stock option grants:

<b>Stock Option Grants</b>	<b>Shares</b>	<b>Weighted Average Grant-Date Fair Value</b>
Unvested balance, January 1, 2006	7,582,659	\$ 3.00
Grants	11,369,793	\$ 3.98
Vested shares	(3,679,491)	\$ 3.64
Forfeitures	(639,012)	\$ 3.10
Unvested balance, December 31, 2006	14,633,949	\$ 3.60

The Company determines fair value of stock option grants as the share price of the Company's common stock at grant-date. The weighted average grant-date fair value of the stock option grants for the year ended December 31, 2006, 2005 and 2004 is \$3.98, \$2.93 and \$2.79, respectively. The total fair value of stock options that vested during the year ended December 31, 2006 was \$13.4 million.

The Company has recorded \$14.5 million, \$2.6 million and \$10.4 million of non-cash stock-based compensation expense in the years ended December 31, 2006, 2005 and 2004, respectively, and an income tax benefit of \$5.8 million, \$1.0 million and \$4.1 million, respectively.

As of December 31, 2006, there was approximately \$49.3 million of unrecognized stock-based compensation cost related to unvested share-based compensation arrangements, which is expected to be recognized over a weighted average period of approximately 3.06 years. Such costs are scheduled to be recognized as follows: \$17.4 million in 2007, \$15.7 million in 2008, \$11.3 million in 2009 and \$4.9 million in 2010.

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During the year ended December 31, 2006, the following awards were granted under the Company's Option Plans:

<b>Grants Made During the Quarter Ended</b>	<b>Number of Options Granted</b>	<b>Weighted Average Exercise Price</b>	<b>Weighted Average Market Value per Share</b>	<b>Weighted Average Intrinsic Value per Share</b>
March 31, 2006	2,869,989	\$ 7.15	\$ 7.15	\$ 0.00
June 30, 2006	534,525	\$ 7.54	\$ 7.54	\$ 0.00
September 30, 2006	418,425	\$ 8.67	\$ 8.67	\$ 0.00
December 31, 2006	7,546,854	\$ 10.81	\$ 11.33	\$ 0.53

Compensation expense is recognized over the requisite service period for the entire award, which is generally the maximum vesting period of the award.

The fair value of the common stock was determined contemporaneously with the option grants.

In December 2006, the Company amended stock option agreements of a former member of MetroPCS Board of Directors to extend the contractual life of 405,054 vested options to purchase common stock until December 31, 2006. This amendment resulted in the recognition of additional non-cash stock-based compensation expense of approximately \$4.1 million in the fourth quarter of 2006.

In December 2006, in recognition of efforts related to the Company's pending initial public offering and to align executive ownership with the Company, the Company made a special stock option grant to its named executive officers and certain other eligible employees. The Company granted stock options to purchase an aggregate of 6,885,000 shares of the Company's common stock to its named executive officers and certain other officers and employees. The purpose of the grant was also to provide retention of employees following the Company's initial public offering as well as to motivate employees to return value to the Company's shareholders through future appreciation of the Company's common stock price. The exercise price for the option grants is \$11.33, which is the fair market value of the Company's common stock on the date of the grant as determined by the Company's board of directors. In determining the fair market value of the common stock, consideration is given to the recommendations of our finance and planning committee and of management based on certain data, including discounted cash flow analysis, comparable company analysis, and comparable transaction analysis, as well as contemporaneous valuation. The stock options granted to the named executive officers other than the Company's CEO and senior vice president and chief technology officer will generally vest on a four-year vesting schedule with 25% vesting on the first anniversary date of the award and the remainder pro-rata on a monthly basis thereafter. The stock options granted to the Company's CEO will vest on a three-year vesting schedule with one-third vesting on the first anniversary date of the award and the remainder pro-rata on a monthly basis thereafter. The stock options granted to the Company's senior vice president and chief technology officer will vest over a two-year vesting schedule with one-half vesting on the first anniversary of the award and the remainder pro-rata on a monthly basis thereafter.

In November 2006, the Company made an election to account for its APIC pool utilizing the short cut method provided under FSP FAS No. 123(R)-3, *Transition Election Related to Accounting for the Tax Effects of Share-Based Payments*.

Upon adoption of SFAS No. 123(R), the Company had 946,908 options that were subject to variable accounting under APB No. 25, and related interpretations. As the options were fully vested upon adoption of SFAS No. 123(R) and there have been no subsequent modifications, no incremental stock-based compensation expense has been recognized in 2006. During the years ended December 31, 2005 and 2004, \$2.3 million and \$5.1 million, respectively, of stock-based compensation expense was recognized related to these options. No options were exercised and 270,900 options were forfeited at a weighted average exercise price of \$1.57

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during 2006. 676,008 options remain outstanding at a weighted average exercise price of \$1.32 intrinsic value of \$6.8 million, and remaining contractual life of 3.16 years as of December 31, 2006.

**15. Employee Benefit Plan:**

The Company sponsors a savings plan under Section 401(k) of the Internal Revenue Code for the majority of its employees. The plan allows employees to contribute a portion of their pretax income in accordance with specified guidelines. The Company does not match employee contributions but may make discretionary or profit-sharing contributions. The Company has made no contributions to the savings plan through December 31, 2006.

**16. Income Taxes:**

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

	2006	2005	2004
Current:			
Federal	\$ 674	\$ (233)	\$ 197
State	3,702	2,603	2,502
	4,376	2,370	2,699
Deferred:			
Federal	29,959	114,733	39,056
State	2,382	10,322	5,245
	32,341	125,055	44,301
Provision for income taxes	\$ 36,717	\$ 127,425	\$ 47,000

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

	2006	2005
<b>Deferred tax assets:</b>		
Start-up costs capitalized for tax purposes	\$	\$ 866
Net operating loss carry forward	83,787	85,152
Net basis difference in FCC licenses		1,428

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Revenue deferred for book purposes	9,407	5,007
Allowance for uncollectible accounts	1,214	1,272
Deferred rent expense	8,311	5,747
Deferred compensation	5,636	2,818
Asset retirement obligation	592	347
Accrued vacation	1,004	603
Partnership interest	7,130	392

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	<b>2006</b>	<b>2005</b>
Alternative Minimum Tax credit carryforward	666	
Other	1,011	558
Total deferred tax assets	118,758	104,190
<b>Deferred tax liabilities:</b>		
Depreciation	(188,484)	(157,083)
Deferred cost of handset sales	(10,251)	(4,867)
Net basis difference in FCC licenses	(9,802)	
Prepaid insurance	(1,174)	(374)
Gain deferral related to like kind exchange	(83,467)	(83,699)
Other comprehensive income	(949)	(1,331)
Other	(1,013)	(573)
Total deferred tax liabilities	(295,140)	(247,927)
Subtotal	(176,382)	(143,737)
Valuation allowance		(194)
Net deferred tax liability	\$ (176,382)	\$ (143,931)

Deferred tax assets and liabilities at December 31, 2006 and 2005 are as follows (in thousands):

	<b>2006</b>	<b>2005</b>
Current deferred tax asset	\$ 815	\$ 2,122
Non-current deferred tax liability	(177,197)	(146,053)
Net deferred tax liability	\$ (176,382)	\$ (143,931)

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

The Company has a valuation allowance of \$0.1 million at December 31, 2004 relating primarily to state net operating losses.

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



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During 2006, the Company utilized approximately \$6.5 million of net operating loss carryforwards for federal income tax purposes. At December 31, 2006 the Company has approximately \$222.2 million and \$131.4 million of net operating loss carryforwards for federal and state income tax purposes, respectively related to operations. As of December 31, 2006, the Company has an additional \$4.5 million and \$4.2 million of net operating losses for federal and state purposes, respectively, arising from tax deductions related to the exercise of non-qualified stock options accounted for under SFAS No. 123(R). The federal net operating loss will begin expiring in 2023. The state net operating losses will begin to expire in 2013. The Company has been able to take advantage of accelerated depreciation and like-kind exchange gain deferral available under federal tax law, which has created a significant deferred tax liability. The reversal of the timing differences which gave rise to the deferred tax liability, future taxable income and future tax planning strategies will allow the Company to benefit from the deferred tax assets. The Company has no valuation allowance as of December 31, 2006.

The Company's tax returns are subject to periodic audit by the various taxing jurisdictions in which it operates. These audits can result in adjustments of taxes due or adjustments of the NOLs which are available to offset future taxable income. The Company's estimate of the potential outcome of any uncertain tax issue prior to audit is subject to management's assessment of relevant risks, facts, and circumstances existing at that time. An unfavorable result under audit may reduce the amount of federal and state NOLs the Company has available for carryforward to offset future taxable income, or may increase the amount of tax due for the period under audit, resulting in an increase to the effective rate in the year of resolution.

The Company establishes income tax reserves when, despite its belief that its tax returns are fully supportable, it believes that certain positions may be challenged and ultimately modified. The Company established tax reserves of \$23.9 million and \$21.2 million as of December 31, 2006 and 2005, respectively. At December 31, 2005, tax reserves in the amount of \$17.1 million and \$4.1 million are included in other long-term liabilities and accounts payable and accrued expenses, respectively. At December 31, 2006, tax reserves in the amount of \$19.5 million and \$4.4 million are included in other long-term liabilities and accounts payable and accrued expenses, respectively.

A reconciliation of income taxes computed at the United States federal statutory income tax rate (35%) to the provision for income taxes reflected in the consolidated statements of income and comprehensive income for the years ended December 31, 2006, 2005 and 2004 is as follows (in thousands):

	<b>2006</b>	<b>2005</b>	<b>2004</b>
U.S. federal income tax provision at statutory rate	\$ 31,683	\$ 114,136	\$ 39,117
Increase (decrease) in income taxes resulting from:			
State income taxes, net of federal income tax impact	2,386	10,865	5,187
Change in valuation allowance	(194)	52	58
Provision for tax uncertainties	2,557	2,274	2,561
Permanent items	218	98	15
Other	67		62

Provision for income taxes	\$ 36,717	\$ 127,425	\$ 47,000
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***Internal Revenue Service Audit***

The Internal Revenue Service (the IRS) commenced an audit of MetroPCS' 2002 and 2003 federal income tax returns in March 2005. In October 2005, the IRS issued a 30-day letter which primarily related to depreciation expense claimed on the returns under audit. The Company filed an appeal of the auditor's assessments in November 2005. The IRS appeals officer made the Company an offer to settle all issues in July

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2006. The net result of the settlement offer created an increase to 2002 taxable income of \$3.9 million and an increase to the 2003 net operating loss of \$0.5 million. The increase to 2002 taxable income was offset by net operating loss carryback from 2003. The Company owed additional interest on the 2002 deferred taxes of approximately \$0.1 million, but no additional tax or penalty. In addition, the IRS Joint Committee concluded its review of the audit and issued a closing letter dated September 5, 2006.

***Texas Margin Tax***

On May 18, 2006, the Texas Governor signed into law a Texas margin tax ( H.B. No. 3 ) which restructures the state business tax by replacing the taxable capital and earned surplus components of the current franchise tax with a new taxable margin component. Because the tax base on the Texas margin tax is derived from an income-based measure, the Company believes the margin tax is an income tax and, therefore, the provisions of SFAS No. 109 regarding the recognition of deferred taxes apply to the new margin tax. In accordance with SFAS No. 109, the effect on deferred tax assets of a change in tax law should be included in tax expense attributable to continuing operations in the period that includes the enactment date. Although the effective date of H.B. No. 3 is January 1, 2008, certain effects of the change should be reflected in the financial statements of the first interim or annual reporting period that includes May 18, 2006. The Company has recorded a deferred tax liability of \$0.05 million as of December 31, 2006 relating to H.B. No. 3.

**17. Net Income Per Common Share:**

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

	<b>2006</b>	<b>2005</b>	<b>2004</b>
<b>Basic EPS Two Class Method:</b>			
Net income	\$ 53,806	\$ 198,677	\$ 64,890
Accrued dividends and accretion:			
Series D Preferred Stock	(21,479)	(21,479)	(21,479)
Series E Preferred Stock	(3,339)	(1,133)	
Net income applicable to common stock	\$ 28,988	\$ 176,065	\$ 43,411
Amount allocable to common shareholders	57.1%	54.4%	53.1%
Rights to undistributed earnings	\$ 16,539	\$ 95,722	\$ 23,070
Weighted average shares outstanding basic	155,820,381	135,352,396	126,722,051
Net income per common share basic	\$ 0.11	\$ 0.71	\$ 0.18

**Diluted EPS:**

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Rights to undistributed earnings	\$	16,539	\$	95,722	\$	23,070
Weighted average shares outstanding basic		155,820,381		135,352,396		126,722,051
Effect of dilutive securities:						
Warrants		147,257		2,689,377		6,642,015
Stock options		3,728,970		15,568,816		17,269,621
Weighted average shares outstanding diluted		159,696,608		153,610,589		150,633,687
Net income per common share diluted	\$	0.10	\$	0.62	\$	0.15

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Net income per common share is computed in accordance with EITF 03-6. Under EITF 03-6, the preferred stock is considered a participating security for purposes of computing earnings or loss per common share and, therefore, the preferred stock is included in the computation of basic and diluted net income per common share using the two-class method, except during periods of net losses. When determining basic earnings per common share under EITF 03-6, undistributed earnings for a period are allocated to a participating security based on the contractual participation rights of the security to share in those earnings as if all of the earnings for the period had been distributed.

At December 31, 2006, 2005 and 2004, 136.1 million, 129.4 million and 122.7 million, respectively, of convertible shares of Series D Preferred Stock were excluded from the calculation of diluted net income per common share since the effect was anti-dilutive.

At December 31, 2006 and 2005, 5.7 million and 1.9 million of convertible shares of Series E Preferred Stock were excluded from the calculation of diluted net income per common share since the effect was anti-dilutive.

**18. Segment Information:**

Operating segments are defined by SFAS No. 131 as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. The Company's chief operating decision maker is the Chairman of the Board and Chief Executive Officer.

At December 31, 2006, the Company had eight operating segments based on geographic regions within the United States: Atlanta, Dallas/Ft. Worth, Detroit, Miami, San Francisco, Sacramento, Tampa/Sarasota/Orlando, and Los Angeles. Each of these operating segments provides wireless voice and data services and products to customers in its service areas or is currently constructing a network in order to provide these services. These services include unlimited local and long distance calling, voicemail, caller ID, call waiting, text messaging, picture and multimedia messaging, international long distance and text messaging, ringtones, games and content applications, unlimited directory assistance, ring back tones, nationwide roaming and other value-added services.

The Company aggregates its operating segments into two reportable segments: Core Markets and Expansion Markets.

Core Markets, which include Atlanta, Miami, San Francisco, and Sacramento, are aggregated because they are reviewed on an aggregate basis by the chief operating decision maker, they are similar in respect to their products and services, production processes, class of customer, method of distribution, and regulatory environment and currently exhibit similar financial performance and economic characteristics.

Expansion Markets, which include Dallas/Ft. Worth, Detroit, Tampa/Sarasota/Orlando and Los Angeles, are aggregated because they are reviewed on an aggregate basis by the chief operating decision maker, they are similar in respect to their products and services, production processes, class of customer, method of distribution, and regulatory environment and have similar expected long-term financial performance and economic characteristics.

The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies. General corporate overhead, which includes expenses such as corporate employee labor costs, rent and utilities, legal, accounting and auditing expenses, is allocated equally across all operating segments. Corporate marketing and advertising expenses are allocated equally to the operating segments, beginning in the period during which the Company launches service in that operating segment.

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Expenses associated with the Company's national data center are allocated based on the average number of customers in each operating segment. All intercompany transactions between reportable segments have been eliminated in the presentation of operating segment data.

Interest expense, interest income, gain/loss on extinguishment of debt and income taxes are not allocated to the segments in the computation of segment operating profit for internal evaluation purposes.

<b>Year Ended December 31, 2006</b>	<b>Core Markets</b>	<b>Expansion Markets</b>	<b>Other</b>	<b>Total</b>
Service revenues	\$ 1,138,019	\$ 152,928	\$	\$ 1,290,947
Equipment revenues	208,333	47,583		255,916
Total revenues	1,346,352	200,511		1,546,863
Cost of service(1)	338,923	106,358		445,281
Cost of equipment	364,281	112,596		476,877
Selling, general and administrative expenses(2)	158,100	85,518		243,618
Adjusted EBITDA (deficit)(3)	492,773	(97,214)		
Depreciation and amortization	109,626	21,941	3,461	135,028
Stock-based compensation expense	7,725	6,747		14,472
Income (loss) from operations	367,109	(126,387)	(3,469)	237,253
Interest expense			115,985	115,985
Accretion of put option in majority-owned subsidiary			770	770
Interest income			(21,543)	(21,543)
Loss on extinguishment of debt			51,518	51,518
Income (loss) before provision for income taxes	367,109	(126,387)	(150,199)	90,523
Capital expenditures	217,215	314,308	19,226	550,749
Total assets(4)	945,699	1,064,243	2,143,180	4,153,122

**Table of Contents****MetroPCS Communications, Inc. and Subsidiaries****Notes to Consolidated Financial Statements  
December 31, 2006, 2005 and 2004 (Continued)**

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

- (1) Cost of service for the year ended December 31, 2006 includes \$1.3 million of stock-based compensation expense disclosed separately.
- (2) Selling, general and administrative expenses include stock-based compensation expense disclosed separately. For the years ended December 31, 2006 and 2005, selling, general and administrative expenses include \$13.2 million and \$2.6 million, respectively, of stock-based compensation expense.
- (3) Adjusted EBITDA (deficit) is presented in accordance with SFAS No. 131 as it is the primary financial measure utilized by management to facilitate evaluation of each segments ability to meet future debt service, capital expenditures and working capital requirements and to fund future growth.
- (4) Total assets as of December 31, 2006 include the Auction 66 AWS licenses that the Company was granted on November 29, 2006 for a total aggregate purchase price of approximately \$1.4 billion. These AWS licenses are presented in the Other column as the Company has not allocated the Auction 66 licenses to its reportable segments as of December 31, 2006.



**Table of Contents****MetroPCS Communications, Inc. and Subsidiaries****Notes to Consolidated Financial Statements  
December 31, 2006, 2005 and 2004 (Continued)**

The following table reconciles segment Adjusted EBITDA (Deficit) for the years ended December 31, 2006 and 2005 to consolidated income before provision for income taxes:

	<b>2006</b>	<b>2005</b>
<b>Segment Adjusted EBITDA (Deficit):</b>		
Core Markets Adjusted EBITDA	\$ 492,773	\$ 316,555
Expansion Markets Adjusted EBITDA (Deficit)	(97,214)	(22,090)
<b>Total</b>	<b>395,559</b>	<b>294,465</b>
Depreciation and amortization	(135,028)	(87,895)
Loss (gain) on disposal of assets	(8,806)	218,203
Non-cash compensation expense	(14,472)	(2,596)
Interest expense	(115,985)	(58,033)
Accretion of put option in majority-owned subsidiary	(770)	(252)
Interest and other income	21,543	8,658
(Gain) loss on extinguishment of debt	(51,518)	(46,448)
<b>Consolidated income before provision for income taxes</b>	<b>\$ 90,523</b>	<b>\$ 326,102</b>

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

**19. Guarantor Subsidiaries:**

In connection with Wireless' sale of the 91/4% Senior Notes and the entry into the Senior Secured Credit Facility, MetroPCS and all of MetroPCS' subsidiaries, other than Wireless and Royal Street (the guarantor subsidiaries), provided guarantees on the 91/4% Senior Notes and Senior Secured Credit Facility. These guarantees are full and unconditional as well as joint and several. Certain provisions of the Senior Secured Credit Facility restrict the ability of the guarantor subsidiaries to transfer funds to Wireless. Royal Street and its subsidiaries (the non-guarantor subsidiaries) are not guarantors of the 91/4% Senior Notes or the Senior Secured Credit Facility.

The following information presents condensed consolidating balance sheets as of December 31, 2006 and 2005, condensed consolidating statements of income for the years ended December 31, 2006, 2005 and 2004, and condensed consolidating statements of cash flows for the years ended December 31, 2006, 2005 and 2004 of the parent company, the issuer, the guarantor subsidiaries and the non-guarantor subsidiaries. Investments include investments in subsidiaries held by the parent company and the issuer and have been presented using the equity method of accounting.



**Table of Contents****MetroPCS Communications, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements**  
**December 31, 2006, 2005 and 2004 (Continued)**  
**Consolidated Balance Sheet**  
**As of December 31, 2006**

	Parent	Issuer	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
	(In thousands)					
<b>CURRENT ASSETS:</b>						
Cash and cash equivalents	\$ 15,714	\$ 99,301	\$ 257	\$ 46,226	\$	\$ 161,498
Short-term investments	45,365	345,286				390,651
Restricted short-term investments		556		51		607
Inventories, net		81,339	11,576			92,915
Accounts receivable, net		29,348		1,005	(2,213)	28,140
Prepaid expenses		8,107	23,865	1,137		33,109
Deferred charges		26,509				26,509
Deferred tax asset		815				815
Current receivable from subsidiaries		4,734			(4,734)	
Other current assets	97	9,478	15,354	120	(766)	24,283
Total current assets	61,176	605,473	51,052	48,539	(7,713)	758,527
Property and equipment, net		14,077	1,158,442	83,643		1,256,162
Long-term investments		1,865				1,865
Investment in subsidiaries	320,783	939,009			(1,259,792)	
FCC licenses	1,391,410		387,876	293,599		2,072,885
Microwave relocation costs			9,187			9,187
Long-term receivable from subsidiaries		456,070			(456,070)	
Other assets	399	51,477	4,078	5,810	(7,268)	54,496
Total assets	\$ 1,773,768	\$ 2,067,971	\$ 1,610,635	\$ 431,591	\$ (1,730,843)	\$ 4,153,122
<b>CURRENT LIABILITIES:</b>						
Accounts payable and accrued expenses	\$ 401	\$ 138,953	\$ 161,663	\$ 29,614	\$ (4,950)	\$ 325,681
Current maturities of long-term debt		16,000		4,734	(4,734)	16,000
Deferred revenue		19,030	71,471			90,501
Advances to subsidiaries	865,612	(1,207,821)	341,950		259	
Other current liabilities		31	3,416	757	(757)	3,447

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Total current liabilities	866,013	(1,033,807)	578,500	35,105	(10,182)	435,629
Long-term debt		2,580,000		4,540	(4,540)	2,580,000
Long-term note to parent				456,070	(456,070)	
Deferred tax liabilities	7	177,190				177,197
Deferred rents			21,784	419		22,203
Redeemable minority interest		4,029				4,029
Other long-term liabilities		19,517	6,285	514		26,316
Total liabilities	866,020	1,746,929	606,569	496,648	(470,792)	3,245,374
COMMITMENTS AND CONTINGENCIES (See Note 10)						
SERIES D PREFERRED STOCK	443,368					443,368
SERIES E PREFERRED STOCK	51,135					51,135
<b>STOCKHOLDERS EQUITY:</b>						
Preferred stock						
Common stock	16					16
Additional paid-in capital	166,315			20,000	(20,000)	166,315
Retained earnings (deficit)	245,690	319,863	1,004,066	(85,057)	(1,238,872)	245,690
Accumulated other comprehensive income	1,224	1,179			(1,179)	1,224
Total stockholders equity	413,245	321,042	1,004,066	(65,057)	(1,260,051)	413,245
Total liabilities and stockholders equity	\$ 1,773,768	\$ 2,067,971	\$ 1,610,635	\$ 431,591	\$ (1,730,843)	\$ 4,153,122

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**Notes to Consolidated Financial Statements**  
**December 31, 2006, 2005 and 2004 (Continued)**  
**Consolidated Balance Sheet**  
**As of December 31, 2005**

	Parent	Issuer	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
	(In thousands)					
<b>CURRENT ASSETS:</b>						
Cash and cash equivalents	\$ 10,624	\$ 95,772	\$ 219	\$ 6,094	\$	\$ 112,709
Short-term investments	24,223	366,199				390,422
Inventories, net		34,045	5,386			39,431
Accounts receivable, net		16,852			(824)	16,028
Prepaid expenses			21,412	18		21,430
Deferred charges		13,270				13,270
Deferred tax asset		2,122				2,122
Other current assets	208	2,364	14,118			16,690
Total current assets	35,055	530,624	41,135	6,112	(824)	612,102
Property and equipment, net			829,457	2,033		831,490
Restricted cash and investments		2,917	3			2,920
Long-term investments		16,385			(11,333)	5,052
Investment in subsidiaries	243,671	710,963			(954,634)	
FCC licenses			387,700	293,599		681,299
Microwave relocation costs			9,187			9,187
Long-term receivable from subsidiaries		320,630			(320,630)	
Other assets		15,360	1,571			16,931
Total assets	\$ 278,726	\$ 1,596,879	\$ 1,269,053	\$ 301,744	\$ (1,287,421)	\$ 2,158,981
<b>CURRENT LIABILITIES:</b>						
Accounts payable and accrued expenses	\$ 321	\$ 58,104	\$ 125,362	\$ 2,590	\$ (12,157)	\$ 174,220
Current maturities of long-term debt			2,690			2,690
Deferred revenue		9,158	47,402			56,560
Advances to subsidiaries	(559,186)	218,278	340,908			
Other current liabilities			2,147			2,147
Total current liabilities	(558,865)	285,540	518,509	2,590	(12,157)	235,617
Long-term debt, net		902,864				902,864

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Long-term note to parent				320,630	(320,630)	
Deferred tax liabilities	146,053					146,053
Deferred rents			14,739			14,739
Redeemable minority interest	1,259					1,259
Other long-term liabilities	17,233		3,625			20,858
Total liabilities	(558,865)	1,352,949	536,873	323,220	(332,787)	1,321,390
COMMITMENTS AND CONTINGENCIES (See Note 10)						
SERIES D PREFERRED STOCK	421,889					421,889
SERIES E PREFERRED STOCK	47,796					47,796
<b>STOCKHOLDERS EQUITY:</b>						
Preferred stock						
Common stock	15					15
Additional paid-in capital	149,584			20,000	(20,000)	149,584
Subscriptions receivable				(13,333)	13,333	
Deferred compensation	(178)	(178)	(178)		356	(178)
Retained earnings (deficit)	216,702	242,357	732,358	(28,143)	(946,572)	216,702
Accumulated other comprehensive income	1,783	1,751			(1,751)	1,783
Total stockholders equity	367,906	243,930	732,180	(21,476)	(954,634)	367,906
Total liabilities and stockholders equity	\$ 278,726	\$ 1,596,879	\$ 1,269,053	\$ 301,744	\$ (1,287,421)	\$ 2,158,981

**Table of Contents****MetroPCS Communications, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements**  
**December 31, 2006, 2005 and 2004 (Continued)**  
**Consolidated Statement of Income**  
**Year Ended December 31, 2006**

	<b>Parent</b>	<b>Issuer</b>	<b>Guarantor Subsidiaries</b>	<b>Non-Guarantor Subsidiaries</b>	<b>Eliminations</b>	<b>Consolidated</b>
	<b>(In thousands)</b>					
<b>REVENUES:</b>						
Service revenues	\$	\$ 695	\$ 1,290,945	\$ 1,005	\$ (1,698)	\$ 1,290,947
Equipment revenues		11,900	244,016			255,916
Total revenues		12,595	1,534,961	1,005	(1,698)	1,546,863
<b>OPERATING EXPENSES:</b>						
Cost of service (excluding depreciation and amortization expense shown separately below)			434,987	11,992	(1,698)	445,281
Cost of equipment		11,538	465,339			476,877
Selling, general and administrative expenses (excluding depreciation and amortization expense shown separately below)		362	227,723	15,533		243,618
Depreciation and amortization			134,708	320		135,028
Loss on disposal of assets			8,806			8,806
Total operating expenses		11,900	1,271,563	27,845	(1,698)	1,309,610
Income from operations		695	263,398	(26,480)		237,253
<b>OTHER EXPENSE (INCOME):</b>						
Interest expense	17,161	115,575	(7,370)	30,956	(40,337)	115,985
Earnings from consolidated subsidiaries	(77,506)	(214,795)			292,301	
Accretion of put option in majority-owned subsidiary		770				770
Interest and other income	(2,807)	(57,493)	(699)	(882)	40,338	(21,543)
Loss on extinguishment of debt	9,345	42,415	(242)			51,518
Total other expense	(53,807)	(113,528)	(8,311)	30,074	292,302	146,730

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Income before provision for income taxes	53,807	114,223	271,709	(56,914)	(292,302)	90,523
Provision for income taxes		(36,717)				(36,717)
Net income (loss)	\$ 53,807	\$ 77,506	\$ 271,709	\$ (56,914)	\$ (292,302)	\$ 53,806



**Table of Contents****MetroPCS Communications, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements**  
**December 31, 2006, 2005 and 2004 (Continued)**  
**Consolidated Statement of Income**  
**Year Ended December 31, 2005**

	<b>Parent</b>	<b>Issuer</b>	<b>Guarantor Subsidiaries</b>	<b>Non-Guarantor Subsidiaries</b>	<b>Eliminations</b>	<b>Consolidated</b>
	<b>(In thousands)</b>					
<b>REVENUES:</b>						
Service revenues	\$	\$	\$ 872,100	\$	\$	\$ 872,100
Equipment revenues		13,960	152,368			166,328
Total revenues		13,960	1,024,468			1,038,428
<b>OPERATING EXPENSES:</b>						
Cost of service (excluding depreciation and amortization expense shown separately below)			283,175	37		283,212
Cost of equipment		12,837	288,034			300,871
Selling, general and administrative expenses (excluding depreciation and amortization expense shown separately below)	274	2,893	158,287	1,022		162,476
Depreciation and amortization		120	87,775			87,895
Gain on disposal of assets			(218,203)			(218,203)
Total operating expenses	274	15,850	599,068	1,059		616,251
Income from operations	(274)	(1,890)	425,400	(1,059)		422,177
<b>OTHER EXPENSE (INCOME):</b>						
Interest expense		58,482	(444)	26,997	(27,002)	58,033
Earnings from consolidated subsidiaries	(198,335)	(396,060)			594,395	
Accretion of put option in majority-owned subsidiary		252				252
Interest and other income	(615)	(34,913)	(1)	(131)	27,002	(8,658)
Loss on extinguishment of debt		44,589	1,859			46,448
Total other expense	(198,950)	(327,650)	1,414	26,866	594,395	96,075

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Income before provision for income taxes	198,676	325,760	423,986	(27,925)	(594,395)	326,102
Provision for income taxes		(127,425)				(127,425)
Net income (loss)	\$ 198,676	\$ 198,335	\$ 423,986	\$ (27,925)	\$ (594,395)	\$ 198,677

**Table of Contents****MetroPCS Communications, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements**  
**December 31, 2006, 2005 and 2004 (Continued)**  
**Consolidated Statement of Income**  
**Year Ended December 31, 2004**

	<b>Parent</b>	<b>Issuer</b>	<b>Guarantor Subsidiaries</b>	<b>Non-Guarantor Subsidiaries</b>	<b>Eliminations</b>	<b>Consolidated</b>
	<b>(In thousands)</b>					
<b>REVENUES:</b>						
Service revenues	\$	\$	\$ 616,401	\$	\$	\$ 616,401
Equipment revenues		11,720	120,129			131,849
Total revenues		11,720	736,530			748,250
<b>OPERATING EXPENSES:</b>						
Cost of service (excluding depreciation and amortization expense shown separately below)			200,806			200,806
Cost of equipment		10,944	211,822			222,766
Selling, general and administrative expenses (excluding depreciation and amortization expense shown separately below)	2,631	38,956	89,761	162		131,510
Depreciation and amortization		915	61,286			62,201
Loss on disposal of assets		24	3,185			3,209
Total operating expenses	2,631	50,839	566,860	162		620,492
Income from operations	(2,631)	(39,119)	169,670	(162)		127,758
<b>OTHER EXPENSE (INCOME):</b>						
Interest expense		16,723	2,307	56	(56)	19,030
Earnings from consolidated subsidiaries	(66,600)	(167,843)			234,443	
Accretion of put option in majority-owned subsidiary		8				8
Interest and other income		(2,528)			56	(2,472)
Gain on extinguishment of debt			(698)			(698)
Total other expense	(66,600)	(153,640)	1,609	56	234,443	15,868
Income before provision for income taxes	63,969	114,521	168,061	(218)	(234,443)	111,890

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Provision for income taxes	921	(47,921)				(47,000)
Net income (loss)	\$ 64,890	\$ 66,600	\$ 168,061	\$ (218)	\$ (234,443)	\$ 64,890

**Table of Contents****MetroPCS Communications, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements**  
**December 31, 2006, 2005 and 2004 (Continued)**  
**Consolidated Statement of Cash Flows**  
**Year Ended December 31, 2006**

	<b>Parent</b>	<b>Issuer</b>	<b>Guarantor Non-Guarantor</b>		<b>Eliminations</b>	<b>Consolidated</b>
			<b>Subsidiaries</b>	<b>Subsidiaries</b>		
			<b>(In Thousands)</b>			
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>						
Net income (loss)	\$ 53,807	\$ 77,504	\$ 271,709	\$ (56,914)	\$ (292,300)	\$ 53,806
Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities:						
Depreciation and amortization			134,708	320		135,028
Provision for uncollectible accounts receivable		31				31
Deferred rent expense			7,045	419		7,464
Cost of abandoned cell sites			1,421	2,362		3,783
Non-cash interest expense	4,810	1,681	473	40,129	(40,129)	6,964
Loss on disposal of assets			8,806			8,806
Loss (gain) on extinguishment of debt	9,345	42,415	(242)			51,518

Gain on sale of investments	(815)	(1,570)				(2,385)
Accretion of asset retirement obligation			706	63		769
Accretion of put option in majority-owned subsidiary		770				770
Deferred income taxes	(613)	32,954				32,341
Stock-based compensation expense			14,472			14,472
Changes in assets and liabilities	1,334,686	(1,758,916)	29,988	13,162	432,474	51,394
Net cash provided by (used in) operating activities	1,401,220	(1,605,131)	469,086	(459)	100,045	364,761
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>						
Purchases of property and equipment		(19,326)	(472,020)	(59,403)		(550,749)
Change in prepaid purchases of property and equipment		(7,826)	2,564			(5,262)
Proceeds from sale of property and equipment			3,021			3,021
Purchase of investments	(326,517)	(943,402)				(1,269,919)
Proceeds from sale of investments	333,159	939,265				1,272,424
Change in restricted cash and investments		2,448	9	(51)		2,406

Purchases of and deposits for FCC licenses	(1,391,410)		(176)			(1,391,586)
Net cash used in investing activities	(1,384,768)	(28,841)	(466,602)	(59,454)		(1,939,665)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>						
Change in book overdraft.		11,368				11,368
Proceeds from bridge credit agreements	1,500,000					1,500,000
Proceeds from Senior Secured Credit Facility		1,600,000				1,600,000
Proceeds from 9 1/4% Senior Notes		1,000,000				1,000,000
Proceeds from minority interest in subsidiary		2,000				2,000
Proceeds from long-term note to parent				100,045	(100,045)	
Debt issuance costs	(14,106)	(44,683)				(58,789)
Repayment of debt	(1,500,000)	(935,539)	(2,446)			(2,437,985)
Proceeds from termination of cash flow hedging derivative		4,355				4,355
Proceeds from exercise of stock options and warrants	2,744					2,744
Net cash (used in) provided by financing activities	(11,362)	1,637,501	(2,446)	100,045	(100,045)	1,623,693

<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>	5,090	3,529	38	40,132	48,789
<b>CASH AND CASH EQUIVALENTS, beginning of period</b>	10,624	95,772	219	6,094	112,709
<b>CASH AND CASH EQUIVALENTS, end of period</b>	\$ 15,714	\$ 99,301	\$ 257	\$ 46,226	\$ 161,498



**Table of Contents****MetroPCS Communications, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements**  
**December 31, 2006, 2005 and 2004 (Continued)**  
**Consolidated Statement of Cash Flows**  
**Year Ended December 31, 2005**

	<b>Parent</b>	<b>Issuer</b>	<b>Guarantor Subsidiaries</b>	<b>Non-Guarantor Subsidiaries</b>	<b>Eliminations</b>	<b>Consolidated</b>
	<b>(In Thousands)</b>					
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>						
Net income (loss)	\$ 198,928	\$ 198,587	\$ 423,986	\$ (27,925)	\$ (594,899)	\$ 198,677
Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities:						
Depreciation and amortization		120	87,775			87,895
Provision for uncollectible accounts receivable		129				129
Deferred rent expense		(72)	4,479			4,407
Cost of abandoned cell sites			725			725
Non-cash interest expense		3,695	590	26,997	(26,997)	4,285
Gain on disposal of assets			(218,203)			(218,203)
Loss on extinguishment of debt		44,589	1,859			46,448
Gain on sale of investments	(154)	(36)				(190)

Accretion of asset retirement obligation		1	422			423
Accretion of put option in majority-owned subsidiary					252	252
Deferred income taxes	52,882	72,173				125,055
Stock-based compensation expense			2,596			2,596
Changes in assets and liabilities	(272,868)	(608,004)	13,857	862	896,870	30,717
Net cash (used in) provided by operating activities	(21,212)	(288,818)	318,086	(66)	275,226	283,216
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>						
Purchases of property and equipment			(266,033)	(466)		(266,499)
Change in prepaid purchases of property and equipment			(11,800)			(11,800)
Proceeds from sale of property and equipment			146			146
Purchase of investments	(54,262)	(685,220)				(739,482)
Proceeds from sale of investments	30,225	356,219				386,444
Change in restricted cash and investments		(121)	14			(107)
Purchases of FCC licenses			(235,330)	(268,600)		(503,930)
Proceeds from sale of FCC licenses			230,000			230,000
Net cash used in investing activities	(24,037)	(329,122)	(283,003)	(269,066)		(905,228)

**CASH FLOWS FROM FINANCING ACTIVITIES:**

Change in book overdraft.		(565)				(565)
Payment upon execution of cash flow hedging derivative		(1,899)				(1,899)
Proceeds from Credit Agreements		902,875				902,875
Proceeds from Bridge Credit Agreements		540,000				540,000
Proceeds from long-term note to parent				275,226	(275,226)	
Debt issuance costs		(29,480)				(29,480)
Repayment of debt		(719,671)	(34,991)			(754,662)
Proceeds from repayment of subscriptions receivable		103				103
Proceeds from issuance of preferred stock, net of issuance costs	46,662					46,662
Proceeds from exercise of stock options and warrants	9,210					9,210
Net cash provided by (used in) financing activities	55,872	691,363	(34,991)	275,226	(275,226)	712,244
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>	10,623	73,423	92	6,094		90,232
<b>CASH AND CASH EQUIVALENTS, beginning of period</b>	1	22,349	127			22,477

**CASH AND CASH  
EQUIVALENTS, end  
of period**

\$ 10,624 \$ 95,772 \$ 219 \$ 6,094 \$ 112,709

**Table of Contents****MetroPCS Communications, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements**  
**December 31, 2006, 2005 and 2004 (Continued)**  
**Consolidated Statement of Cash Flows**  
**Year Ended December 31, 2004**

	Parent	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
	(In thousands)					
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>						
Net income (loss)	\$ 54,294	\$ 66,609	\$ 168,061	\$ (218)	\$ (223,856)	\$ 64,890
Adjustments to reconcile net income to net cash (used in) provided by operating activities:						
Depreciation and amortization		915	61,286			62,201
Provision for uncollectible accounts receivable		125				125
Deferred rent expense		15	3,451			3,466
Cost of abandoned cell sites			1,021			1,021
Non-cash interest expense		470	2,419	56	(56)	2,889
Loss (gain) on disposal of assets		24	3,185			3,209
(Gain) loss on extinguishment of debt			(698)			(698)
(Gain) loss on sale of investments		576				576
Accretion of asset retirement obligation		(1)	254			253
Accretion of put option in majority-owned subsidiary					8	8
Deferred income taxes	(921)	45,362				44,441
Stock-based compensation expense		10,429				10,429
Changes in assets and liabilities	(53,837)	(314,588)	77,929	143	247,922	(42,431)
Net cash (used in) provided by operating	(464)	(190,064)	316,908	(19)	24,018	150,379

activities

**CASH FLOWS FROM INVESTING****ACTIVITIES:**

Purchases of property and equipment	(1,558)	(249,272)			(250,830)
Purchase of investments	(158,672)				(158,672)
Proceeds from sale of investments	307,220				307,220
Change in restricted cash and investments	(1,511)				(1,511)
Purchases of FCC licenses	(8,700)	(53,325)			(62,025)
Deposit to FCC for licenses			(25,000)		(25,000)
Microwave relocation costs		(63)			(63)
Net cash provided by (used in) investing activities	136,779	(302,660)	(25,000)		(190,881)

**CASH FLOWS FROM FINANCING****ACTIVITIES:**

Change in book overdraft.	5,778				5,778
Proceeds from short-term notes payable	1,703				1,703
Proceeds from long-term note to parent			18,352	(18,352)	
Proceeds from capital contributions			6,667	(6,667)	
Debt issuance costs	(164)				(164)
Repayment of debt		(14,215)			(14,215)
Proceeds from minority interest in majority-owned subsidiary				1,000	1,000
Proceeds from issuance of preferred stock, net of issuance costs	5				5
Proceeds from exercise of stock options and warrants	460				460
Net cash provided by (used in) financing activities	465	7,317	(14,215)	25,019	(24,019)

**INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS**

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

**Table of Contents****MetroPCS Communications, Inc. and Subsidiaries****Notes to Consolidated Financial Statements  
December 31, 2006, 2005 and 2004 (Continued)****20. Related-Party Transactions:**

One of the Company's current directors is a general partner of various investment funds affiliated with one of the Company's greater than 5% stockholders. These funds own in the aggregate an approximate 17% interest in a company that provides services to the Company's customers, including handset insurance programs and roadside assistance services. Pursuant to the Company's agreement with this related party, the Company bills its customers directly for these services and remits the fees collected from its customers for these services to the related party. During the years ended December 31, 2006, 2005 and 2004, the Company received a fee of approximately \$2.7 million, \$2.2 million and \$1.4 million, respectively, as compensation for providing this billing and collection service. In addition, the Company also sells handsets to this related party. For the years ended December 31, 2006, 2005 and 2004, the Company sold approximately \$12.7 million, \$13.2 million and \$12.5 million in handsets, respectively, to the related party. As of December 31, 2006 and 2005, the Company owed approximately \$3.0 million and \$2.1 million, respectively, to this related party for fees collected from its customers that are included in accounts payable and accrued expenses on the accompanying consolidated balance sheets. As of December 31, 2005, receivables from this related party in the amount of approximately \$0.7 million are included in accounts receivable. As of December 31, 2006, receivables from this related party in the amount of approximately \$0.8 million and \$0.1 million are included in accounts receivable and other current assets, respectively.

The Company paid approximately \$0.1 million, \$0.2 million and \$0.4 million for the years ended December 31, 2006, 2005 and 2004, respectively, to a law firm for professional services, a partner of which was a director of the Company during 2004, 2005 and 2006.

The Company paid approximately \$0.1 million, \$1.3 million and \$2.3 million for the years ended December 31, 2006, 2005 and 2004, respectively, to a law firm for professional services, a partner of which is related to a Company officer.

**21. Supplemental Cash Flow Information:**

	<b>Year Ended December 31,</b>		
	<b>2006</b>	<b>2005</b>	<b>2004</b>
	<b>(In thousands)</b>		
Cash paid for interest	\$ 86,380	\$ 41,360	\$ 19,180
Cash paid for income taxes	3,375		

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

The Company accrued dividends of \$21.0 million, \$21.0 million and \$21.0 million related to the Series D Preferred Stock for the years ended December 31, 2006, 2005 and 2004, respectively.

The Company accrued dividends of \$3.0 million and \$1.0 million related to the Series E Preferred Stock for the years ended December 31, 2006 and 2005.



Net changes in the Company's accrued purchases of property, plant and equipment were \$28.5 million, \$25.3 million and \$33.4 million for the years ended December 31, 2006, 2005 and 2004, respectively. Of the \$33.4 million net change for the year ended December 31, 2004, \$8.5 million was included in other long-term liabilities.

The Company accrued \$0.5 million of microwave relocation costs for the year ended December 31, 2004.

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

**Table of Contents****MetroPCS Communications, Inc. and Subsidiaries****Notes to Consolidated Financial Statements  
December 31, 2006, 2005 and 2004 (Continued)****22. Fair Value of Financial Instruments:**

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

***Long-Term Debt***

The fair value of the Company's long-term debt is estimated based on the quoted market prices for the same of similar issues or on the current rates offered to the Company for debt of the same remaining maturities.

The estimated fair values of the Company's financial instruments are as follows (in thousands):

	2006		2005	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Microwave relocation obligations	\$	\$	\$ 2,690	\$ 2,690
Credit Agreements			900,000	861,380
Senior Secured Credit Facility	1,596,000	1,597,219		
91/4% Senior Notes	1,000,000	1,032,500		
Cash flow hedging derivatives	1,865	1,865	5,052	5,052
Short-term investments	390,651	390,651	390,422	390,422

**23. Quarterly Financial Data (Unaudited):**

The following financial information reflects all normal recurring adjustments that are, in the opinion of management, necessary for a fair statement of the Company's results of operations for the interim periods. Summarized data for each interim period for the years ended December 31, 2006 and 2005 is as follows (in thousands, except per share data):

	Three Months Ended			
	March 31, 2005	June 30, 2005	September 30, 2005	December 31, 2005
Total revenues	\$ 235,956	\$ 250,689	\$ 263,555	\$ 288,229
Income from operations(1)	45,841	284,303	47,778	44,256
Net income(1)	22,800	136,482	20,556	18,841
Net income per common share basic	\$ 0.07	\$ 0.54	\$ 0.06	\$ 0.05
Net income per common share diluted	\$ 0.06	\$ 0.46	\$ 0.05	\$ 0.04

	<b>Three Months Ended</b>			
	<b>March 31, 2006</b>	<b>June 30, 2006</b>	<b>September 30, 2006</b>	<b>December 31, 2006</b>
Total revenues	\$ 329,461	\$ 368,194	\$ 396,116	\$ 453,092
Income from operations	46,999	54,099	69,394	66,761
Net income (loss)(2)	18,369	22,989	29,266	(16,818)
Net income (loss) per common share basic	\$ 0.04	\$ 0.06	\$ 0.08	\$ (0.15)
Net income (loss) per common share diluted	\$ 0.04	\$ 0.06	\$ 0.08	\$ (0.15)

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- (1) During the three months ended June 30, 2005, the Company recorded on a gain on the sale of PCS spectrum in the amount of \$228.2 million.
- (2) During the three months ended December 31, 2006, the Company repaid all of its outstanding obligations under the Credit Agreements, the Secured Bridge Credit Facility and the Unsecured Bridge Credit Facility resulting in a loss on extinguishment of debt in the amount of approximately \$51.8 million.

**24. Subsequent Events:**

On March 14, 2007, the Company's Board of Directors approved a 3 for 1 stock split of the Company's common stock effected by means of a stock dividend of two shares of common stock for each share of common stock issued and outstanding on that date. All share, per share and conversion amounts relating to common stock and stock options included in the accompanying consolidated financial statements have been retroactively adjusted to reflect the stock split.

**Stockholder Rights Plan (Unaudited)**

In connection with the proposed initial public offering, the Company anticipates adopting a Stockholder Rights Plan. Under the Stockholder Rights Plan, each share of the Company's common stock will include one right to purchase one one-thousandth of a share of series A junior participating preferred stock. The rights will separate from the common stock and become exercisable (1) ten calendar days after public announcement that a person or group of affiliated or associated persons has acquired, or obtained the right to acquire, beneficial ownership of 15% of the Company's outstanding common stock or (2) ten business days following the start of a tender offer or exchange offer that would result in a person's acquiring beneficial ownership of 15% of the Company's outstanding common stock. A 15% beneficial owner is referred to as an "acquiring person" under the Stockholder Rights Plan.

**Table of Contents****Item 14. *Changes in and Disagreements with Accountants on Accounting and Financial Disclosure***

The information required by this item is contained under the section Management's Discussion and Analysis of Financial Condition and Results of Operations – Change in Accountants of the IPO Registration Statement. That section is incorporated herein by reference.

**Item 15. *Financial Statements and Exhibits*****(a) Financial Statements**

See Item 13 above.

**(b) Exhibits**

Unless otherwise noted, the following exhibits are incorporated herein by reference from the IPO Registration Statement:

<b>Exhibit No.</b>	<b>Description</b>
2.1(a)	Agreement and Plan of Merger, dated as of April 6, 2004, by and among MetroPCS Communications, Inc., MPCS Holdco Merger Sub, Inc. and MetroPCS, Inc.
2.1(b)	Agreement and Plan of Merger, dated as of November 3, 2006, by and among MetroPCS Wireless, Inc., MetroPCS IV, Inc., MetroPCS III, Inc., MetroPCS II, Inc. and MetroPCS, Inc.
3.1**	Second Amended and Restated Certificate of Incorporation of MetroPCS Communications, Inc.
3.2**	Second Amended and Restated Bylaws of MetroPCS Communications, Inc., as amended.
4.1	Form of Certificate of MetroPCS Communications, Inc. Common Stock.
4.2(a)**	Second Amended and Restated Stockholders Agreement, dated as of August 30, 2005, by and among MetroPCS Communications, Inc. and its stockholders.
4.2(b)**	First Amendment to the Second Amended and Restated Stockholders Agreement, dated as of March 22, 2007, by and among MetroPCS Communications, Inc. and the stockholders party thereto. (Filed as Exhibit 10.1 to MetroPCS Communications, Inc.'s Current Report on Form 8-K, filed on March 27, 2007, and incorporated by reference herein).
4.3**	Securities Purchase Agreement, dated as of July 17, 2000, by and among MetroPCS, Inc., each of the Subsidiary parties listed on Schedule 1 thereto and each of the Purchaser parties listed on Schedule 2 thereto, as amended by (i) Amendment No. 1 to Securities Purchase Agreement, dated as of November 13, 2000, (ii) Amendment No. 2 to Securities Purchase Agreement, dated as of December 12, 2000, (iii) Amendment No. 3 to Securities Purchase Agreement, dated as of December 19, 2000, (iv) Amendment No. 4 to Securities Purchase Agreement, dated as of January 4, 2001, (v) Amendment No. 5 to Securities Purchase Agreement, dated as of January 9, 2001, (vi) Amendment No. 6 to Securities Purchase Agreement, dated as of November 3, 2003, and (vii) Amendment No. 7 to Securities Purchase Agreement, dated as of May 19, 2004.
4.4**	Stock Purchase Agreement, dated as of August 30, 2005, by and between MetroPCS Communications, Inc. and the Investors described therein.
10.1(a)	MetroPCS Communications, Inc. Amended and Restated 2004 Equity Incentive Compensation Plan.

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- 10.1(b) Second Amended and Restated 1995 Stock Option Plan of MetroPCS, Inc.
- 10.1(c) First Amendment to the Second Amended and Restated 1995 Stock Option Plan of MetroPCS, Inc.
- 10.1(d) Second Amendment to the Second Amended and Restated 1995 Stock Option Plan of MetroPCS, Inc.
- 10.2(a)\*\* Employment Agreement, dated as of March 31, 2005, by and between MetroPCS Texas, LLC and J. Braxton Carter, II.
- 10.2(b)\*\* Amendment No. 1 to Employment Agreement, dated as of March 5, 2007, by and between MetroPCS Texas, LLC and J. Braxton Carter, II.
- 10.3 Form of Officer and Director Indemnification Agreement.

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<b>Exhibit No.</b>	<b>Description</b>
10.4(a)	General Purchase Agreement, effective as of June 6, 2005, by and between MetroPCS Wireless, Inc. and Lucent Technologies Inc.
10.4(b)	Amendment No. 1 to the General Purchase Agreement, effective as of September 30, 2005, by and between MetroPCS Wireless, Inc. and Lucent Technologies Inc.
10.4(c)	Amendment No. 2 to the General Purchase Agreement, effective November 10, 2005, by and between MetroPCS Wireless, Inc. and Lucent Technologies Inc.
10.5	Amended and Restated Services Agreement, executed on December 15, 2005 as of November 24, 2004, by and between MetroPCS Wireless, Inc. and Royal Street Communications, LLC, including all amendments thereto.
10.6	Second Amended and Restated Credit Agreement, executed on December 15, 2005 as of December 22, 2004, by and among MetroPCS Wireless, Inc. and Royal Street Communications, LLC, including all amendments thereto.
10.7	Amended and Restated Pledge Agreement, executed on December 15, 2005 as of December 22, 2004, by and between Royal Street Communications, LLC and MetroPCS Wireless, Inc., including all amendments thereto.
10.8	Amended and Restated Security Agreement, executed on December 15, 2005 as of December 22, 2004, by and between Royal Street Communications, LLC and MetroPCS Wireless, Inc., including all amendments thereto.
10.9	Amended and Restated Limited Liability Company Agreement of Royal Street Communications, LLC, executed on December 15, 2005 as of November 24, 2004 by and between C9 Wireless, LLC, GWI PCS1, Inc., and MetroPCS Wireless, Inc., including all amendments thereto.
10.10	Master Equipment and Facilities Lease Agreement, executed as of May 17, 2006, by and between MetroPCS Wireless, Inc. and Royal Street Communications, LLC, including all amendments thereto.
10.11	Amended and Restated Credit Agreement, dated as of February 20, 2007, among MetroPCS Wireless, Inc., as borrower, the several lenders from time to time parties thereto, Bear Stearns Corporate Lending Inc., as administrative agent and syndication agent, Bear, Stearns & Co. Inc., as sole lead arranger and joint book runner, Merrill Lynch, Pierce, Fenner & Smith Incorporated, as joint book runner and Banc of America Securities LLC, as joint book runner.
10.12	Purchase Agreement, dated October 26, 2006, among MetroPCS Wireless, Inc., the Guarantors as defined therein and Bear, Stearns & Co. Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated and Banc of America Securities LLC.
10.13	Registration Rights Agreement, dated November 3, 2006, by and among MetroPCS Wireless, Inc., the Guarantors as defined therein and Bear, Stearns & Co. Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated and Banc of America Securities LLC.
10.14	Indenture, dated as of November 3, 2006, among MetroPCS Wireless, Inc., the Guarantors as defined therein and The Bank of New York Trust Company, N.A., as trustee.
10.15	Supplemental Indenture, dated as of February 6, 2007, among the Guaranteeing Subsidiaries as defined therein, the other Guarantors as defined in the Indenture referred to therein and The Bank of New York Trust Company, N.A., as trustee under the Indenture referred to therein.
21.1	Subsidiaries of Registrant.
99.1*	Amendment No. 4 to Registration Statement on Form S-1/A.

\* Filed herewith.

\*\* Previously filed.



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**SIGNATURES**

Pursuant to the requirements of Section 12 of the Securities Exchange Act of 1934, the registrant has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized.

**MetroPCS Communications, Inc.**

By: /s/ Roger D. Linquist

Roger D. Linquist  
President and Chief Executive Officer

Dated: April 16, 2007

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10.4(c)	

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-

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