Table of Contents

Index to Financial Statements

As filed with the Securities and Exchange Commission on July 27, 2004

Registration No. 333-113865

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Amendment No. 5

to

FORM S-1

REGISTRATION STATEMENT

Under

THE SECURITIES ACT OF 1933

MetroPCS Communications, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**4812**	**20-0836269**
(State or other jurisdiction of incorporation or organization)	**(Primary Standard Industrial Classification Code Number)**	**(I.R.S. Employer Identification No.)**

8144 Walnut Hill Lane, Suite 800

Dallas, Texas 75231

(214) 265-2550

(Address, including zip code, and telephone number, including area code, of registrant s principal executive offices)

Roger D. Linquist

President, Chief Executive Officer,

Secretary and Chairman of the Board

8144 Walnut Hill Lane, Suite 800

Dallas, Texas 75231

(214) 265-2550

(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies to:

Andrews Kurth LLP

600 Travis, Suite 4200

Houston, Texas 77002

(713) 220-4200

Attn: Henry Havre

Kin Gill

Latham & Watkins LLP

885 Third Avenue, Suite 1000

New York, New York 10022

(212) 906-1200

Attn: Ian Blumenstein

Approximate date of commencement of proposed sale to the public: As soon as practicable following the effectiveness of this registration statement.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act, check the following box. ¨

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If the delivery of the prospectus is expected to be made pursuant to Rule 434, check the following box. ¨

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Proposed Maximum Aggregate Offering Price (2)	Amount of Registration Fee (2)
Common stock, par value $0.0001 per share (1)	$607,200,000	$76,933 (3)

(1) Includes shares of common stock issuable upon the exercise of the underwriters over-allotment option.
(2) Estimated solely for the purpose of calculating the amount of the registration fee pursuant to Rule 457(o) under the Securities Act of 1933, as amended.
(3) The registrant has previously paid these fees.

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

Table of Contents

Index to Financial Statements

The information in this prospectus is not complete and may be changed. We may not sell these securities until the Securities and Exchange Commission declares our registration statement effective. This prospectus is not an offer to sell these securities and is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED JULY 27, 2004

PROSPECTUS

24,000,000 Shares

MetroPCS Communications, Inc.

Common Stock

This is an initial public offering of 24,000,000 shares of common stock of MetroPCS Communications, Inc. No public market currently exists for any class of our capital stock. We are selling 12,000,000 of the shares of common stock offered under this prospectus, and certain of our stockholders, referred to in this prospectus as the selling stockholders, are selling the remaining 12,000,000 shares. We will not receive any of the net proceeds from the shares sold by the selling stockholders.

We currently anticipate the initial public offering price of our common stock to be between $20.00 and $22.00 per share. Our shares have been approved for quotation on the Nasdaq National Market under the symbol MPCS.

See Risk Factors beginning on page 8 to read about risks that you should consider before buying shares of our common stock.

Neither the Securities and Exchange Commission nor any other regulatory body has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

	Per Share	Total
Public offering price	$	$
Underwriting discounts	$	$
Proceeds, before expenses, to us	$	$
Proceeds, before expenses, to the selling stockholders	$	$

The underwriters may purchase up to an additional 3,600,000 shares of common stock from the selling stockholders at the initial public offering price less the underwriting discount to cover over-allotments.

The underwriters expect to deliver the shares on , 2004.

Bear, Stearns & Co. Inc. **Merrill Lynch & Co.**

UBS Investment Bank

JPMorgan

Thomas Weisel Partners LLC

The date of this prospectus is , 2004.

[Table of Contents](#)

[Index to Financial Statements](#)

Table of Contents

Index to Financial Statements

You should rely only on the information contained in this prospectus. We have not authorized anyone to provide you with information different from that contained in this prospectus. We are offering to sell, and seeking offers to buy, shares of common stock only in jurisdictions where offers and sales are permitted. The information contained in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or of any sale of our common stock.

TABLE OF CONTENTS

Table of Contents

Index to Financial Statements

PROSPECTUS SUMMARY

This summary contains selected information about us and this offering. You should carefully read this entire prospectus, including the section entitled Risk Factors, and our consolidated financial statements and the accompanying notes included elsewhere in this prospectus.

MetroPCS

We are among the fastest growing wireless communications providers in the United States, measured by annual percentage growth in customers and revenue. We offer wireless voice and data services on a no-contract, flat rate, unlimited usage basis in the San Francisco, Miami, Atlanta and Sacramento metropolitan areas, which include a total population of 22.6 million people. We launched service in all of these areas in the first quarter of 2002, except for San Francisco, which we launched in September 2002. We reported positive net income after four quarters of operations and one million customers after eight quarters of operations. As of March 31, 2004, we had approximately 1.15 million customers. We believe that we reached these growth and profitability milestones significantly faster than any other U.S. wireless carrier and that our no-contract, flat rate, unlimited usage service offering will allow us to continue to penetrate our existing markets and further drive our growth and profitability. In addition, we believe our services can be successfully introduced in new markets, and we continue to assess attractive expansion opportunities.

We provide wireless voice and data services to the mass market, which we believe is underserved by traditional wireless carriers. Our service, branded under the metroPCS name, allows our customers to place unlimited wireless calls within a local calling area and to receive unlimited calls from any area under our simple and affordable flat monthly rate plan of $35. For an additional $5 per month, our customers may place unlimited long distance calls from within a local calling area to any number in the continental United States. For additional fees, we also provide caller ID, voicemail, text messaging, camera functions, downloads of ringtones, games and content applications, international long distance and other value-added services. Our calling plans differentiate us from the more complex plans and long-term contracts required by other wireless carriers. Our customers pay for our service in advance, eliminating any customer credit exposure, and we do not require a long-term service contract. Our customers currently average approximately 1,800 minutes of use per month, compared to approximately 675 minutes per month for customers of traditional wireless carriers. We believe that average monthly usage by our customers also exceeds the average monthly usage for typical wireline customers. Average usage by our customers indicates that a majority of our customers use us as their primary telecommunications service provider, and our customer survey results indicate that approximately 35% of our customers use us as their sole telecommunications service provider.

To date, our strategy has resulted in high rates of customer acceptance and strong financial performance. For the year ended December 31, 2003, we reported total revenues of $459.5 million, net cash provided by operating activities of $109.6 million and net income of $20.6 million. In 2003, our net income declined from net income of $139.1 million reported in 2002, primarily as a result of a $279 million pre-tax gain realized on the sale of 10 MHz of spectrum in our Atlanta market in February 2002. As of December 31, 2003, we had $902.5 million of total assets, $236.0 million of cash and cash equivalents and $195.8 million of total debt.

Competitive Strengths

Our principal competitive strengths are:

Our flat rate calling plans, which provide unlimited usage within a local calling area with no long-term contracts

Our focus on densely populated markets, which provide significant operational efficiencies

1

Table of Contents

Index to Financial Statements

- Our leadership position as the lowest cost provider of wireless telephone services in the United States

- Our state-of-the-art CDMA 1XRTT network, which provides more efficient use of spectrum than other commonly deployed wireless technologies

- Our deep spectrum portfolio, which provides us with operational flexibility and the ability to swap or sell spectrum

Business Strategy

Our business strategy is to:

- Continue to target the underserved customer segments in our markets

- Offer affordable, fixed price calling plans without long-term service contracts

- Maintain our position as the lowest cost wireless telephone services provider in the United States

- Expand into attractive markets through acquisitions and spectrum swaps

As a result of our business strategy, we have ranked among the leaders in the U.S. wireless industry in incremental market penetration in every quarter since we launched operations. Historically, approximately 42% of our gross customer additions have been first time wireless customers. We believe our rapid adoption rates and customer mix demonstrate that our service is expanding the overall size of the wireless market and better meeting the needs of many existing wireless users. Our operating strategy, network design and rapidly increasing scale should allow us to maintain our cost leadership position, as we further reduce our operating costs per customer and enhance profitability in the future.

We expect that attractive expansion opportunities will become available, and we plan to target new markets that complement our existing footprint or can be operated as a standalone cluster with growth and profitability characteristics similar to our existing markets. Consistent with this strategy, on July 8, 2004, we agreed to pay $43.5 million in cash to acquire two 10MHz PCS licenses for areas in Tampa and Sarasota, Florida, with a total population of approximately 3.3 million people. These markets have similar characteristics to our existing markets and are geographically contiguous to our existing operations in southwest Florida.

Table of Contents

Index to Financial Statements

The Offering

Common stock offered by MetroPCS	12,000,000 shares
Common stock offered by the selling stockholders	12,000,000 shares
Capital stock to be outstanding after this offering:	
Common stock	97,106,870 shares
Class A common stock	90 shares
Voting rights	Holders of the common stock offered in this prospectus will have one vote per share. However, with respect to all matters submitted to a vote of stockholders for which a separate class vote is not required, the holders of our Class A common stock, consisting of Roger D. Linquist (our President, Chief Executive Officer, Secretary and Chairman of the Board) and C. Boyden Gray (a member of our board of directors), will have, collectively, votes equal to 50.1% of the aggregate voting power of all shares entitled to vote. The holders of our common stock will have, collectively, votes equal to 49.9% of the aggregate voting power of all shares entitled to vote. In addition, the holders of Class A common stock will be entitled to a separate class vote to elect five members of our board of directors, and the holders of common stock will be entitled to a separate class vote to elect four members of our board of directors. Following this offering, we intend to petition the FCC for the ability to convert our Class A common stock into common stock, with one vote per share. We expect to complete this process within approximately nine months of the consummation of this offering. However, we cannot assure you that the FCC will grant this request in a timely fashion or at all. See Legislation and Government Regulations and Description of Capital Stock.
Use of proceeds	We estimate that the net proceeds to us from this offering will be approximately $235.0 million. We intend to use the net proceeds to us for general corporate purposes, including continued expansion of our networks in existing markets and expansion into new markets, including through acquisitions. In addition, we may use a portion of the net proceeds to redeem a portion of our 10 $^{3}/_{4}$% senior notes due 2011. We will not receive any proceeds from the sale of common stock by the selling stockholders. See Use of Proceeds.
Nasdaq National Market symbol	MPCS.
Risk factors	See Risk Factors beginning on page 8 of this prospectus for a discussion of factors you should consider carefully before deciding to invest in our common stock.

Table of Contents

Index to Financial Statements

The number of shares of capital stock to be outstanding upon consummation of this offering:

- is based upon our outstanding capital stock as of May 31, 2004;
- gives effect to a one for two reverse stock split of our outstanding common, which occurred on July 23, 2004;
- gives effect to the conversion of all of our outstanding Series D preferred stock into common stock, which will occur concurrently with the consummation of this offering (including shares of common stock to be issued in respect of unpaid dividends on our outstanding Series D preferred stock that have accumulated as of May 31, 2004);
- excludes shares of common stock to be issued in respect of unpaid dividends on our outstanding Series D preferred stock that have accumulated subsequent to May 31, 2004;
- excludes 16,010,389 shares reserved for issuance under our equity compensation plans (of which 10,627,486 shares are currently issuable upon the exercise of outstanding options with a weighted average exercise price of $2.3959 per share) and 1,215,570 shares issuable upon the exercise of outstanding warrants with a weighted average exercise price of $0.5697 per share; and
- assumes no exercise of the underwriters over-allotment option.

MetroPCS Communications, Inc., a Delaware corporation, was incorporated on March 10, 2004, and is the holding company parent of MetroPCS, Inc., a Delaware corporation. MetroPCS, Inc. was incorporated on June 24, 1994. We operate principally through two subsidiaries and hold PCS licenses in 15 subsidiaries. Our principal executive offices are located at 8144 Walnut Hill Lane, Suite 800, Dallas, Texas 75231, and our telephone number is (214) 265-2550. Our website URL is www.metropcs.com. The information on our website is not a part of this prospectus.

Table of Contents

Index to Financial Statements

Summary Consolidated Financial and Other Data

The following table sets forth summary consolidated financial and other data of MetroPCS Communications, Inc. at March 31, 2004, for the years ended December 31, 2001, 2002 and 2003 and for the three months ended March 31, 2003 and 2004. We derived our summary consolidated financial data for each of the three years in the period ended December 31, 2003 from the audited consolidated financial statements included elsewhere in this prospectus. We derived our summary consolidated financial data at March 31, 2004 and for the three months ended March 31, 2003 and 2004 from our unaudited consolidated financial statements included elsewhere in this prospectus. You should read the summary consolidated financial and other data in conjunction with Capitalization, Selected Consolidated Financial and Other Data, Management s Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements, including the notes thereto, included elsewhere in this prospectus.

	Year Ended December 31,			Three Months Ended March 31,	
	2001	**2002**	**2003**	**2003**	**2004**
			(In thousands)		
Statement of Operations Data:					
Revenues:					
Service revenues	$	$ 102,137	$ 370,920	$ 75,999	$ 132,921
Equipment revenues		23,458	88,562	23,399	40,077
Total revenues		125,595	459,482	99,398	172,998
Operating expenses:					
Cost of service (excluding depreciation included below)		61,881	118,335	25,929	40,909
Cost of equipment		100,651	155,084	44,213	64,047
Selling, general and administrative expenses (excluding non-cash compensation)	27,963	55,515	90,556	18,046	28,916
Non-cash compensation	1,455	1,115	7,379	241	3,256
Depreciation and amortization	208	21,394	41,900	9,047	12,774
(Gain) loss on sale of assets		(278,956)(1)	333	111	87
Total operating expenses	29,626	(38,400)	413,587	97,587	149,989
Income (loss) from operations	(29,626)	163,995	45,895	1,811	23,009
Other (income) expense:					
Interest expense	10,491	6,805	11,254	1,755	5,572
Interest income	(2,046)	(964)	(1,061)	(140)	(616)
(Gain) loss on extinguishment of debt	7,109		(603)		(201)
Total other expense	15,554	5,841	9,590	1,615	4,755
Income (loss) before income taxes and cumulative effect of change in accounting principle	(45,180)	158,154	36,305	196	18,254
Provision for income taxes		(19,087)	(15,665)	(113)	(7,417)
Income (loss) before cumulative effect of change in accounting principle	(45,180)	139,067	20,640	83	10,837

Cumulative effect of change in accounting, net of tax			(74)	(74)	
Net income (loss)	$ (45,180)	$ 139,067	$ 20,566	$ 9	$ 10,837
Other Financial and Operating Data (GAAP):					
Net cash provided by (used in) operating activities	$ (32,401)	$ (64,523)	$ 109,618	$ (4,826)	$ 24,368
Net cash provided by (used in) investing activities	24,183	(73,494)	(137,321)	(26,623)	(70,527)
Net cash provided by (used in) financing activities	41,708	157,066	201,951	5,581	(4,697)
Cash used for capital expenditures	133,604	212,305	117,212	26,899	73,338

5

Table of Contents

Index to Financial Statements

	Year Ended December 31,			Three Months Ended March 31,	
	2001	2002	2003	2003	2004
Other Financial and Operating Data (Non-GAAP):					
Adjusted EBITDA (in thousands) (2)	$ (27,963)	$ (92,452)	$ 95,507	$ 11,210	$ 39,126
Adjusted EBITDA margin (3)			21%	11%	23%
Covered POPs (at period end) (4)		16,964,450	17,662,491	17,197,196	17,942,763
Customers (at period end)		513,484	976,899	708,965	1,150,954
Average monthly churn (5)		4.4%	4.6%	3.5%	3.8%
Average revenue per user (ARPU) (2)		$ 39.17	$ 37.68	$ 39.50	$ 40.00
Cost per gross addition (CPGA) (2)		158.50	99.86	104.97	96.74

	As of March 31, 2004	
	Actual	As Adjusted (6)
	(In thousands)	
Balance Sheet Data:		
Cash and cash equivalents	$ 185,109	$ 420,119
Property and equipment, net	519,549	519,549
Total assets	895,220	1,130,230
Total debt, net of unamortized discount	193,102	193,102

(1) In February 2002, we sold 10 MHz of excess spectrum in our Atlanta market resulting in a pre-tax gain of $279.0 million.

(2) We utilize certain financial measures that are not calculated in accordance with generally accepted accounting principles, or GAAP, to assess our financial performance. A non-GAAP financial measure is defined as a numerical measure of a company s financial performance that (i) excludes amounts, or is subject to adjustments that have the effect of excluding amounts, that are included in the comparable measure calculated and presented in accordance with GAAP in the statement of operations or statement of cash flows; or (ii) includes amounts, or is subject to adjustments that have the effect of including amounts, that are excluded from the comparable measure so calculated and presented.

Adjusted earnings before interest, taxes, depreciation and amortization, or adjusted EBITDA, average revenue per user, or ARPU, and cost per gross addition, or CPGA, are non-GAAP financial measures utilized by our management to judge our ability to meet our liquidity requirements and to evaluate our operating performance. We believe these measures are important in understanding the performance of our operations from period to period, and although every company in the wireless industry does not define each of these measures in precisely the same way, we believe that these measures (which are common in the wireless industry) facilitate key liquidity and operating performance comparisons with other companies in the wireless industry. The following tables reconcile our non-GAAP financial measures with our financial statements presented in accordance with GAAP.

We have presented adjusted EBITDA because this financial measure, in combination with other GAAP and non-GAAP financial measures, is an integral part of the internal reporting system utilized by management to facilitate evaluation of our ability to meet future debt service, capital expenditure and working capital requirements and fund future growth. Adjusted EBITDA is a supplement to GAAP financial information and should not be construed as an alternative to, or more meaningful than, cash flows from operating activities, as determined in accordance with GAAP. The following table reconciles adjusted EBITDA to net cash provided by (used in) operating activities.

	Year Ended December 31,	Three Months Ended March 31,

	2001	2002	2003	2003	2004
			(In thousands)		
Calculation of Adjusted EBITDA:					
Net cash provided by (used in) operating activities	$ (32,401)	$ (64,523)	$ 109,618	$ (4,826)	$ 24,368
Interest expense, net of interest income	8,445	5,841	10,193	1,615	4,956
Bad debt expense		(381)	(991)	(749)	(433)
Accretion of asset retirement obligation			(50)	(25)	(79)
Non-cash interest	(3,882)	(3,028)	(3,090)	(784)	(688)
Deferred rents	(949)	(1,853)	(1,160)	(414)	(435)
Cost of abandoned cell sites			(824)	(477)	(183)
Non-deferred tax		8,993	1,643		
Working capital changes	824	(37,501)	(19,832)	16,870	11,620
Adjusted EBITDA	$ (27,963)	$ (92,452)	$ 95,507	$ 11,210	$ 39,126

6

Table of Contents

Index to Financial Statements

We believe average revenue per user, or ARPU, is a useful measure to evaluate our per-customer service revenue realization and to assist in forecasting our future service revenues. ARPU is calculated exclusive of activation revenues, as these amounts are a component of our costs of acquiring new customers and are included in our calculation of CPGA. ARPU is also calculated exclusive of E-911 charges, as these are generally pass through charges that we collect from our customers and remit to the appropriate government agencies.

Average number of customers for any measurement period is determined by dividing (a) the sum of the average monthly number of customers for the measurement period by (b) the number of months in such period. Average monthly number of customers for any month represents the sum of the number of customers on the first day of the month and the last day of the month divided by two. The following table shows the calculation of ARPU for the periods indicated:

		Year Ended December 31,		Three Months Ended March 31,	
		2002	2003	2003	2004
		(In thousands, except average number of customers and ARPU)			
Calculation of Average Revenue Per User (ARPU)					
Service revenues		$ 102,137	$ 370,920	$ 75,999	$ 132,921
Less:	Activation revenues	(3,018)	(14,410)	(1,860)	(3,186)
	E-911 charges		(5,823)	(1,166)	(2,076)
Net service revenues		99,119	350,687	72,973	127,659
Divided by: Average number of customers		210,881	775,605	615,876	1,063,815
ARPU		$ 39.17	$ 37.68	$ 39.50	$ 40.00

We utilize cost per gross addition, or CPGA, to assess the efficiency of our distribution strategy, validate the initial capital invested in our customers and determine the number of months to recover our customer acquisition costs. This measure also provides a gauge to compare our average acquisition costs per new customer to those of other wireless communications providers. Activation revenues and equipment revenues related to new customers are deducted from selling costs in this calculation as they represent amounts paid by customers at the time their service is activated that reduce our acquisition cost of those customers. Additionally, equipment costs associated with existing customers, net of related revenues, are excluded as this measure is intended to reflect only the acquisition costs related to new customers. The following table shows the calculation of CPGA for the periods indicated:

		Year Ended December 31,		Three Months Ended March 31,	
		2002	2003	2003	2004
		(In thousands, except gross customer additions and CPGA)			
Calculation of Cost Per Gross Addition (CPGA):					
Selling expenses		$ 26,526	$ 44,076	$ 9,879	$ 12,214
Less:	Activation revenues	(3,018)	(14,410)	(1,860)	(3,186)
Less:	Equipment revenues	(23,458)	(88,562)	(23,399)	(40,077)
Plus:	Equipment revenue not associated with new customers	578	17,150	1,035	16,729
Plus:	Cost of equipment	100,651	155,084	44,213	64,047
Less:	Equipment costs not associated with new customers	(2,050)	(24,030)	(2,541)	(21,201)
Gross addition expenses		99,229	89,308	27,327	28,526

Divided by: Gross customer additions	626,050	894,348	260,320	294,886
CPGA	$ 158.50	$ 99.86	$ 104.97	$ 96.74

(3) Adjusted EBITDA margin is calculated by dividing adjusted EBITDA by total revenues.

(4) POPs represents the aggregate number of persons in a given area. Covered POPs represents the estimated number of POPs in our markets that reside within the areas covered by our network.

(5) Average monthly churn represents (a) the number of customers who have been disconnected from our system during the measurement period less the number of customers who have reactivated service, divided by (b) the sum of the average monthly number of customers during such period. A customer s handset is disenabled if the customer has failed to make payment by the due date and is disconnected from our system if the customer fails to make payment within 30 days thereafter. See Management s Discussion and Analysis of Financial Condition and Results of Operations Customer Recognition and Disconnect Policies.

(6) As adjusted to reflect our sale of 12,000,000 shares of common stock in this offering at an assumed initial public offering price of $21.00 per share and our receipt of the estimated net proceeds to us from this offering.

Table of Contents

Index to Financial Statements

RISK FACTORS

You should consider carefully the following factors and other information in this prospectus.

Risks Related to Our Business

We have a limited operating history and our recent performance may not be indicative of our future results.

We began offering service in the first quarter of 2002, and we had no revenues prior to that time. Consequently, we have a limited operating and financial history upon which to evaluate our financial performance, business plan execution and ability to succeed in the future. You should consider our prospects in light of the risks, expenses and difficulties we may encounter, including those frequently encountered by new companies competing in rapidly evolving markets. If we are unable to execute our plans and grow our business, our financial results would be adversely affected.

If we experience a higher rate of customer turnover than forecasted, our costs could increase and our revenues could decline, which would reduce our profits and could reduce the trading price of our common stock.

Our average monthly rate of customer turnover, or churn, for the three months ended June 30, 2004 was approximately 5.2%, an increase over our average monthly churn rate for the three months ended March 31, 2004 of 3.8%. A higher rate of churn would reduce our revenues and increase our marketing costs to attract the replacement customers required to sustain our business plan, which would reduce our profit margin and could reduce the trading price of our common stock. Many wireless service providers have historically experienced a high rate of customer turnover. Our rate of customer turnover may be affected by several factors, including the following:

- network coverage;
- reliability issues, such as dropped and blocked calls;
- handset problems;
- the inability of our customers to cost-effectively roam onto other wireless networks;
- affordability; and

customer care concerns.

Unlike many of our competitors, we do not require our customers to enter into long-term service contracts. As a result, our customers retain the right to cancel their service at any time without penalty, and we expect our churn rate to be higher than other wireless carriers.

Additionally, as of November 24, 2003, FCC rules require all wireless carriers to provide for wireless number portability for their customers in the top 100 metropolitan statistical areas. As a result, wireless customers in these markets now have the ability to change wireless carriers, but retain their wireless telephone number. Although to date these wireless number portability rules have not resulted in substantial increases in the frequency with which customers switch wireless carriers, it is too soon to predict the long-term effect of these rules on customer turnover. In addition, these number portability requirements are likely to result in added capital expenditures for us to make necessary system changes.

Our internal controls over revenue reporting are insufficient to detect in a timely manner misstatements that could occur in our financial statements in amounts that may be material.

Our customers pay in advance for our services. In accordance with generally accepted accounting principles, amounts received in advance are recorded on our balance sheet as deferred revenue, and are recognized as

Table of Contents

Index to Financial Statements

service revenues on our statement of operations only when the services actually are rendered. See Management s Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies and Estimates. Because we currently prepare service revenue calculations and reconciliations of deferred revenue balances manually, the process is inherently subject to error. This issue may become more significant as our business expands and our product offering becomes more complex.

In July 2003, during the preparation of quarterly financial statements, management noted that the balance of the deferred revenue accounts relative to service revenues had fluctuated from period to period in an inconsistent manner. Management called this inconsistency to the attention of our auditors. In August 2003, management and our auditors noted that the reconciliation of deferred revenue did not include all the appropriate accounts receivable and deferred revenue accounts, and was not prepared on a timely basis. In September 2003, management concluded that we were understaffed in our revenue accounting function and that we did not have personnel with the appropriate experience required to properly account for activity resulting from the billing system.

In October 2003, in connection with the review of our interim financial statements, our auditors issued a letter to us describing these deficiencies. In February 2004, in connection with the audit of our financial statements for the year ended December 31, 2003, our auditors identified the lack of automation in the revenue reporting process as a material weakness in our internal controls over revenue reporting. The Public Company Accounting Oversight Board has defined material weakness as a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. This means that there is a risk that a material misstatement in the deferred revenue accounts and the related service revenue accounts in our financial statements for a future period is reasonably possible.

To address revenue reporting, management made significant changes to the manual service revenue calculations and deferred revenue reconciliation processes to insure proper revenue reporting and a more timely and complete monthly reconciliation of accounts receivable balances provided by our billing system to the corresponding balances in our general ledger and the related deferred revenue accounts. To further enhance our internal controls, subsequent to December 31, 2003, we have added a Vice President Controller and a Director of Revenue Accounting, each of whom has several years of relevant experience with revenue and billing systems in the telecommunications industry. We have also hired a senior accounting professional whose focus is to insure that we are effectively utilizing all of the functions available in our billing system, expand the related reporting capabilities, and continue to enhance and further automate our processes related to revenue accounting.

Management believes, and our auditors have advised us based on their review of our financial statements for the three months ended March 31, 2004, that the material weakness still exists due to the lack of automation in this area. Moreover, our auditors have advised us that they will not be able to confirm that the material weakness has been fully remediated until they complete an audit of our financial statements. We expect our next audit to be completed in March 2005. If we are not able to remediate this weakness, we may not be able to prevent or detect a material misstatement of our financial statements.

Our inability to manage our planned growth could increase our costs and adversely affect our level of service.

We have experienced rapid growth and development in a relatively short period of time and expect to continue to experience growth in the future. The management of such growth will require, among other things, continued development of our financial and management controls and management information systems, stringent control of costs, diligent management of our network infrastructure and its growth, increased capital requirements associated with marketing activities, the ability to attract and retain qualified management personnel and the training of new personnel. Failure to successfully manage our expected growth and development could have a material adverse effect on our business, increase our costs and adversely affect our level of service. Additionally, the costs of acquiring new customers could affect our near-term profitability

Table of Contents

Index to Financial Statements

adversely. See Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources.

The wireless industry is experiencing rapid technological change, and we may lose customers if we fail to keep up with these changes.

The wireless communications industry is experiencing significant technological change, as evidenced by the ongoing improvements in the capacity and quality of digital technology, the development and commercial acceptance of advanced wireless data services, shorter development cycles for new products and enhancements and changes in end-user requirements and preferences. We may lose customers if we fail to keep up with these changes.

We are dependent on our FCC licenses, and our ability to provide service to our customers and generate revenues could be harmed by adverse regulatory action or changes to existing laws or rules.

The FCC regulates the licensing, construction, modification, operation, ownership, sale and interconnection arrangements of wireless communications systems, as do some state and local regulatory agencies. We cannot assure you that the FCC or the state and local agencies having jurisdiction over our business will not adopt regulations or take other actions that would adversely affect our business by imposing new costs or requiring changes in our current or planned operations, or that the Communications Act of 1934, from which the FCC obtains its authority, will not be amended in a manner that could be adverse to us.

Our principal assets are our FCC licenses to provide personal communications services. The loss of any of these licenses could have a material adverse effect on our business. Our FCC licenses are subject to revocation if we are found not to have complied with the FCC s rules or the Communications Act s requirements. We also could be subject to fines and forfeitures for such non-compliance, which could affect our business adversely. For example, absent a waiver, failure to comply with the FCC s enhanced 911, or E-911, requirements or with number portability requirements could subject us to significant penalties. In addition, because we acquired our licenses in an entrepreneur s block FCC auction, our licenses are subject to additional FCC requirements, which dictate the manner in which our voting control and equity must be held during the first ten years we hold the licenses (until 2007 with respect to our current licenses), and obligate us to make quarterly installment payments to the FCC on the debt we owe to the FCC for our licenses. Failure to comply with these requirements could result in revocation of the licenses and/or fines and forfeitures, and/or could require us to pay the outstanding debt to the FCC on an accelerated basis, any of which could have an adverse effect on our business. Finally, our current licenses expire in January 2007, and although the FCC s rules provide for renewal, there is no guarantee that the FCC will renew all or any of our licenses. Failure to have our licenses renewed would affect our business adversely. See Legislation and Government Regulations.

In addition, the market value of FCC licenses has been subject to significant volatility in the past. There can be no assurance as to the market value of our FCC licenses or that the market value of FCC licenses will not be volatile in the future.

Our business strategy is relatively new and unproven and may not succeed in the long term.

A major element of our business strategy is to offer consumers a service that allows them to make unlimited local and/or long distance calls from within a local calling area, depending on the service plan selected, and receive unlimited calls from any area for a flat monthly rate without entering into a long-term service contract. This is a relatively new approach to marketing wireless services and it may not prove to be successful in the long term. From time to time, we also evaluate our service offerings and the demands of our target customers and may modify, change or adjust our service offerings or trial new service offerings as a result. We cannot assure you that these service offerings will be successful or prove to be profitable.

Table of Contents

Index to Financial Statements

We face intense competition from other wireless and wireline communications providers.

We compete directly in each of our markets with other wireless providers and with wireline providers as a mobile alternative to traditional landline service. Many of our competitors have substantially greater resources and larger market share than we have, which may affect our ability to compete successfully. Additionally, many of our competitors offer larger coverage areas or nationwide calling plans that do not require additional charges for roaming, and the competitive pressures of the wireless communications industry have caused other carriers to offer service plans with increasingly large bundles of minutes of use at increasingly lower prices. These competitive plans could adversely affect our ability to maintain our pricing, market penetration and customer retention. Furthermore, the FCC may pursue policies designed to make available additional spectrum for the provision of wireless services in each of our markets, which may increase the number of wireless competitors and enhance the ability of our wireless competitors to offer additional plans and services.

We also compete with companies that use other communications technologies, including paging and digital two-way paging, enhanced specialized mobile radio and domestic and global mobile satellite service. These technologies may have advantages over the technology we use and may ultimately be more attractive to customers. We may compete in the future with companies that offer new technologies and market other services that we do not offer. Some of our competitors do or may offer these other services together with their wireless communications service, which may make their services more attractive to customers. In addition, energy companies, utility companies and cable operators are expanding their services to offer communications services.

Our success depends on our ability to attract and retain qualified management and other personnel.

Our business is managed by a small number of key executive officers. The loss of one or more of these persons could disrupt our ability to react quickly to business developments and changes in market conditions, which could reduce profits and the trading price of our common stock. We believe our future success will also depend in large part on our continued ability to attract and retain highly qualified technical and management personnel. We believe that there is and will continue to be intense competition for qualified personnel in the personal communications services industry, and we may not be successful in retaining our key personnel or in attracting and retaining other highly qualified technical and management personnel. None of the members of our management team is party to an employment agreement.

We rely on third parties to provide our customers and us with equipment and services that are integral to our business.

We have entered into agreements with third-party contractors to provide equipment for our network and services required for our operation, such as customer care and billing and payment processing. Some of these agreements are subject to termination upon short notice. The loss or expiration of these contracts or our inability to renew them or negotiate contracts with other providers at comparable rates could harm our business. Our reliance on others to provide essential services on our behalf also gives us less control over the efficiency, timeliness and quality of these services.

We may incur higher than anticipated intercarrier compensation costs, which could increase our costs and reduce our profit margin.

When our customers use our service to call customers of other carriers, we are required to pay the carrier that serves the called party. Similarly, when a customer of another carrier calls one of our customers, that carrier is required to pay us. While in most cases we have been successful in negotiating agreements with other carriers that limit our compensation obligations, some carriers have claimed a right to unilaterally impose unreasonably high charges on us. The wireless industry has sought clarification from the FCC that federal law prohibits such unreasonable and unilaterally imposed charges. We cannot assure you that the FCC will rule in our favor. An adverse ruling or FCC inaction could result in carriers successfully collecting such fees from us, which could increase our costs and reduce our profit margin.

Table of Contents

Index to Financial Statements

Concerns about whether mobile telephones pose health and safety risks may lead to the adoption of new regulations, to lawsuits and to a decrease in demand for our services, which could increase our costs and reduce our revenues.

Media reports and some studies have suggested that, and additional studies have been undertaken to determine whether, radio frequency emissions from wireless handsets may be linked to various health concerns, including cancer, and may interfere with various electronic medical devices, including hearing aids and pacemakers. In addition, lawsuits have been filed against other participants in the wireless industry alleging various adverse health consequences as a result of wireless phone usage. While many of these lawsuits have been dismissed on various grounds, including a lack of scientific evidence linking wireless handsets with such adverse health consequences, future lawsuits could be filed based on new evidence or in different jurisdictions. If any suits do succeed, or if plaintiffs are successful in negotiating settlements, additional suits likely would be filed. Additionally, purported class action litigation has been filed seeking to require that all wireless telephones include an earpiece that would enable the use of wireless telephones without holding them against the user s head. While it is not possible to predict the outcome of this litigation, circumstances surrounding it could increase the cost of our wireless handsets and other operating expenses.

If consumers health concerns over radio frequency emissions increase, consumers may be discouraged from using wireless handsets, and regulators may impose restrictions or increased requirements on the location and operation of cell sites or the use or design of mobile telephones. Such new restrictions or requirements could expose wireless providers to further litigation, which, even if not successful, may be costly to defend. In addition, compliance with such new requirements could adversely affect our business. The actual or perceived risk of radio frequency emissions could also adversely affect us through a reduction in customers or a reduction in the availability of financing in the future.

In addition to health concerns, safety concerns have been raised with respect to the use of wireless handsets while driving. There is a risk that local governments may adopt regulations restricting the use of wireless handsets while driving, which could reduce demand for our services.

Our indebtedness could affect our financial health adversely.

As of March 31, 2004, we had $193.1 million of outstanding indebtedness, which could have important consequences. For example, it could:

- increase our vulnerability to general adverse economic and industry conditions;
- require us to dedicate a substantial portion of our cash flow from operations to payments on our indebtedness, thereby reducing the availability of our cash flow to fund working capital, capital expenditures and other general corporate purposes;
- limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate; and
- limit our ability to borrow additional funds.

In addition, the indenture governing our senior notes contains restrictive covenants that limit our ability to engage in activities that may be in our long-term best interest. Our failure to comply with those covenants could result in an event of default that, if not cured or waived, could result in the acceleration of all of our debts and require us to allocate our financial resources to repay such debts. See Description of Certain Indebtedness.

Despite current indebtedness levels, we and our subsidiaries will be able to incur substantially more debt. This could further exacerbate the risks associated with our leverage.

We and our subsidiaries are able to incur substantial additional indebtedness in the future. The terms of the indenture governing our senior notes do not fully prohibit us or our subsidiaries from doing so. If new debt is added to our and our subsidiaries current debt levels, the related risks that we and they now face could intensify.

Table of Contents

Index to Financial Statements

Risks Related to the Offering

A limited number of stockholders control us, and their interests may be different from yours.

Our certificate of incorporation and the stockholders agreement to which our current stockholders are parties provide that, upon the consummation of this offering, with respect to all matters submitted to a vote of stockholders for which a separate class vote is not required, the holders of our Class A common stock will have, collectively, votes equal to 50.1% of the aggregate voting power of all shares entitled to vote, and the holders of our common stock will have, collectively, votes equal to 49.9% of the aggregate voting power of all shares entitled to vote. In addition, the holders of Class A common stock will be entitled to a separate class vote to elect five of the nine members of our board of directors. Although we expect to petition the FCC for the ability to combine our Class A common stock and our common stock into a single class of capital stock after the consummation of this offering, we cannot assure you that the FCC will grant this request in a timely fashion or at all. See Legislation and Government Regulations and Description of Capital Stock.

Roger D. Linquist (our President, Chief Executive Officer, Secretary and Chairman of the Board) and C. Boyden Gray (a member of our board of directors) together own all outstanding shares of our Class A common stock. In addition, after consummation of this offering, our executive officers and directors and principal stockholders together will beneficially own shares representing approximately 44.3% of the voting power underlying our common stock and 73.2% of the voting power underlying all classes of our capital stock, including shares subject to options and warrants that confer beneficial ownership of the underlying shares. As a result, these controlling stockholders will have the ability to determine the composition of our board of directors and to control our future operations and strategy.

Conflicts of interest between the controlling stockholders and our public stockholders may arise with respect to sales of shares of capital stock owned by the controlling stockholders or other matters. In addition, the interests of the controlling stockholders and other existing stockholders regarding any proposed merger or sale may differ from the interests of our public stockholders, especially if the consideration to be paid for the common stock is less than the price paid by public stockholders.

This concentration of ownership could also have the effect of delaying or preventing a change in our control or otherwise discouraging a potential acquirer from attempting to obtain control of us, which in turn could have a material and adverse effect on the market price of our common stock or prevent our stockholders from realizing a premium over the market prices for their shares. See Principal and Selling Stockholders for more information about the beneficial ownership of our capital stock by our executive officers, directors and principal stockholders.

There has been no prior market for our capital stock, and an active trading market may not develop.

Prior to this offering, there has been no public market for any class of our capital stock. An active trading market may not develop following the closing of this offering or, if developed, may not be sustained. The lack of an active market may impair your ability to sell your shares at the time you wish to sell them or at a price that you consider reasonable. The lack of an active market may also reduce the fair market value of your shares. An inactive market may also impair our ability to raise capital by selling shares and may impair our ability to acquire other companies or technologies by using our shares as consideration.

You may not be able to seek remedies against Arthur Andersen LLP, our former independent public accountants, with respect to our financial statements that were audited by Arthur Andersen LLP.

In February 2002, we appointed PricewaterhouseCoopers LLP to serve as our independent registered public accounting firm for fiscal year 2001 after previously dismissing Arthur Andersen LLP. On June 15, 2002, Arthur Andersen LLP was convicted of federal obstruction of justice arising from the government s investigation of Enron Corp., and subsequently ceased operations. Arthur Andersen LLP had audited our financial statements for

Table of Contents

Index to Financial Statements

the fiscal years ended December 31, 1999 and 2000. Financial statements for those periods have not been reviewed by our current independent registered public accounting firm. Purchasers of our common stock may have no effective remedy against Arthur Andersen LLP in connection with any material misstatement or omission in those financial statements.

We do not intend to pay dividends in the foreseeable future.

We have never declared or paid any cash dividends on our common stock. For the foreseeable future, we intend to retain any earnings to finance the development and expansion of our business, and we do not anticipate paying any cash dividends on our common stock. Payment of any future dividends on our common stock will depend upon our earnings and capital requirements, the terms of our debt instruments and any preferred stock and other factors our board of directors considers appropriate. In addition, because we are a holding company, we depend on the cash flows of our subsidiaries to pay any potential dividends. The ability of our subsidiaries to distribute funds to us is and will be restricted by the terms of existing and future indebtedness, including the indenture governing our senior notes, and by applicable state laws that limit the payments of dividends. See Description of Certain Indebtedness.

Our stock price is likely to be very volatile.

Prior to this offering, you could not buy or sell our common stock publicly. Although the initial public offering price will be determined based on several factors, the market price after this offering may vary from the initial offering price. The market price of our common stock is likely to be highly volatile and could be subject to wide fluctuations in response to factors such as the following, some of which are beyond our control:

- variations in our operating results;
- operating results that vary from the expectations of securities analysts and investors;
- changes in expectations as to our future financial performance, including financial estimates by securities analysts and investors;
- changes in market valuations of other PCS companies;
- announcements of technological innovations or new services by us or our competitors;
- announcements by us or our competitors of significant contracts, acquisitions, strategic partnerships, joint ventures or capital commitments;
- additions or departures of key personnel;

- future sales of our capital stock;
- stock market price and volume fluctuations; and
- general political and economic conditions, such as a recession.

Substantial sales of our common stock could adversely affect our stock price.

Sales of a substantial number of shares of common stock after this offering, or the perception that such sales could occur, could adversely affect the market price of our common stock by introducing a large number of sellers to the market. Given the volatility that will likely exist for our shares, such sales could cause the market price of our common stock to decline.

Immediately after this offering, we will have 97,106,870 shares of common stock outstanding. We have reserved an additional 16,010,389 shares of common stock for issuance under our equity compensation plans, of which 10,627,486 shares are subject to outstanding options. In addition, we have reserved 1,215,570 shares of common stock for issuance upon the exercise of outstanding warrants. Following this offering, all of the shares

Table of Contents

Index to Financial Statements

of common stock to be sold in this offering will be freely tradable without restriction or further registration under the federal securities laws unless purchased by our affiliates, as that term is defined in Rule 144 under the Securities Act, and an additional 32,683,857 shares will be freely tradable pursuant to Rule 144(k) under the Securities Act. The remaining 40,423,013 shares of our outstanding common stock will be restricted securities under the Securities Act, subject to restrictions on the timing, manner and volume of sales of such shares.

After this offering, the stockholder parties to our stockholders agreement, who will collectively hold 73,106,870 shares of our common stock, will be entitled to certain rights with respect to the registration of the sale of such shares under the Securities Act. By exercising their registration rights and causing a large number of shares to be sold in the public market, these holders could cause the market price of our common stock to decline. See Description of Capital Stock Stockholders Agreement.

Following the consummation of this offering, we also intend to file a registration statement on Form S-8 under the Securities Act covering shares of common stock reserved for issuance under our equity compensation plans; that registration statement will automatically become effective upon filing.

We cannot predict whether future sales of our common stock, or the availability of our common stock for sale, will adversely affect the market price for our common stock or our ability to raise capital by offering equity securities.

Anti-takeover provisions affecting us could prevent or delay a change of control.

Provisions of Delaware law and of our certificate of incorporation and bylaws could make it more difficult for a third party to acquire control of us. For example, we are subject to Section 203 of the Delaware General Corporation Law which would make it more difficult for another party to acquire our company without the approval of our board of directors. Additionally, our certificate of incorporation authorizes our board of directors to issue preferred stock without requiring any stockholder approval, and preferred stock could be issued as a defensive measure in response to a takeover proposal. These provisions could make it more difficult for a third party to acquire us even if an acquisition might be in the best interest of our stockholders. See Description of Capital Stock.

Our certificate of incorporation provides for two classes of directors, those elected by holders of our Class A common stock and those elected by holders of our common stock. The classification of our board of directors could have the effect of delaying or preventing a change in control or otherwise discouraging a potential acquirer from attempting to obtain control of us. See Description of Capital Stock.

The indenture governing our senior notes contains limitations concerning mergers, consolidations and certain sales of assets by us. These limitations may further deter takeover attempts. In particular, the indenture requires us to give holders of the senior notes the opportunity to sell us their senior notes at 101% of their principal amount plus accrued and unpaid interest in the event of a change of control, as such term is defined in the indenture. See Description of Certain Indebtedness.

Our business is subject to regulation by the FCC and state regulatory commissions or similar state regulatory agencies in the states in which we operate. The FCC and some states have statutes or regulations that would require an investor who acquires a specified percentage of our securities or the securities of one of our subsidiaries to obtain approval to own those securities from the FCC or the applicable state commission.

Therefore, such regulatory agencies have the ability to prevent a change of control even if such an acquisition is in the best interests of our stockholders.

You will experience immediate and substantial dilution.

The initial public offering price will be substantially higher than the net tangible book value of each outstanding share of common stock. Purchasers of common stock in this offering will suffer immediate and

Table of Contents

Index to Financial Statements

substantial dilution. The dilution will be $14.59 per share in the net tangible book value of the common stock at an assumed initial public offering price of $21.00 per share.

Our management has broad discretion in the application of proceeds, which may increase the risk that the proceeds will not be applied effectively.

Our management will have broad discretion in determining how to spend the net proceeds we receive from this offering. Accordingly, we can spend the net proceeds from this offering in ways which turn out to be ineffective or with which our stockholders may not agree.

The requirements of being a public company may strain our resources and distract management.

Until recently, we were not subject to the reporting requirements of the Securities Exchange Act of 1934 or the other rules and regulations of the Securities and Exchange Commission relating to public companies. We have been working with our independent legal, accounting and financial advisors to identify those areas in which improvements should be made to our financial and management control systems to manage our growth and our obligations as a public company. These areas include corporate governance, corporate control, internal audit, and financial reporting and accounting systems. We have made, and will continue to make, improvements in these and other areas, including the establishment of an internal audit function, and the addition of new personnel in finance and accounting areas. However, we cannot assure you that these and other measures we may take will be sufficient to allow us to satisfy our obligations as a public company on a timely basis.

Table of Contents

Index to Financial Statements

USE OF PROCEEDS

We estimate that the net proceeds to us from the sale of common stock in this offering will be approximately $235.0 million at an assumed initial public offering price of $21.00 per share and after deducting underwriting discounts and commissions and estimated transaction fees and expenses payable by us. We will not receive any proceeds from the sale of common stock by the selling stockholders.

We intend to use the net proceeds to us for general corporate purposes, including continued expansion of our networks in existing markets and expansion into new markets, including through acquisitions. In addition, we may use a portion of the net proceeds to redeem a portion of our 10 $^{3}/4$% senior notes due 2011 at a redemption price equal to 110.750% of the principal amount of redeemed notes, plus accrued and unpaid interest on such notes.

DIVIDEND POLICY

We have never declared or paid a cash dividend on our common stock. For the foreseeable future, we intend to retain any earnings to finance the development and expansion of our business, and we do not anticipate paying any cash dividends on our common stock. Payment of any future dividends on our common stock will depend upon our earnings and capital requirements, the terms of our debt instruments and any preferred stock and other factors our board of directors considers appropriate. In addition, because we are a holding company, we depend on the cash flows of our subsidiaries to pay any potential dividends. The ability of our subsidiaries to distribute funds to us is and will be restricted by the terms of existing and future indebtedness, including the indenture governing our senior notes, and by applicable state laws that limit the payments of dividends. See Description of Certain Indebtedness.

Table of Contents

Index to Financial Statements

CAPITALIZATION

The following table sets forth our cash and cash equivalents and consolidated capitalization as of March 31, 2004 on an actual basis, and on a pro forma basis to reflect:

- our sale of 12,000,000 shares of common stock in this offering at an assumed initial public offering price of $21.00 per share and our receipt of the estimated net proceeds to us from this offering; and

- the conversion of all of our outstanding Class B common stock into common stock and Series D preferred stock into common stock (including shares of common stock to be issued in respect of unpaid dividends on our outstanding Series D preferred stock that have accumulated as of March 31, 2004).

You should read this table together with Selected Consolidated Financial and Other Data, Management s Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements of MetroPCS Communications, Inc., including the notes thereto, included elsewhere in this prospectus.

	As of March 31, 2004	
	Actual	**Pro Forma**
	(unaudited) (In thousands)	
Cash and cash equivalents	$ 185,109	$ 420,119
Total debt:		
FCC notes, net of unamortized discount	$ 39,285	$ 39,285
Senior notes	150,000	150,000
Other debt	3,817	3,817
Total debt, net of unamortized discount	193,102	193,102
Series D cumulative convertible redeemable participating preferred stock, par value $.0001 per share, 4,000,000 shares designated and 3,500,953 shares issued and outstanding, actual; none designated, issued or outstanding, pro forma	384,267	
Stockholders equity:		
Class A common stock, par value $.0001 per share, 300 shares authorized, and 90 shares issued and outstanding		
Class B common stock, par value $.0001 per share, 60,000,000 shares authorized and 4,113,785 shares issued and outstanding, actual; none authorized, issued or outstanding, pro forma		
Common stock, par value $.0001 per share, 240,000,000 shares authorized and 37,239,375 shares issued and outstanding, actual; 300,000,000 shares authorized and 94,798,683 shares issued and outstanding, pro forma	4	9
Additional paid-in capital	92,420	717,008
Subscription receivable	(93)	(93)
Deferred compensation	(4,328)	(4,328)

Retained earnings	6,383	1,062
Total stockholders equity	94,386	713,658
Total capitalization	$ 671,755	$ 906,760

18

Table of Contents

Index to Financial Statements

DILUTION

Our pro forma net tangible book value as of March 31, 2004 was approximately $372.5 million, or $4.50 per share of our common stock and Class A common stock. Pro forma net tangible book value represents the amount of total tangible assets less total liabilities, divided by the sum of the number of shares of our common stock and Class A common stock outstanding, assuming conversion of all outstanding shares of Series D preferred stock into common stock. Without taking into account any other changes in the net tangible book value after March 31, 2004, other than to give effect to our sale of shares of common stock in this offering at an assumed initial public offering price of $21.00 per share and our receipt of the estimated net proceeds from this offering, our as adjusted pro forma net tangible book value as of March 31, 2004 would have been approximately $607.5 million, or $6.41 per share. This represents an immediate increase in net tangible book value of $1.91 per share to existing stockholders and an immediate dilution of $14.59 per share to new investors. The following table illustrates this per share dilution:

Assumed initial public offering price per share	$ 21.00
Pro forma net tangible book value per share before this offering	4.50
Increase per share attributable to new investors	1.91
As adjusted pro forma net tangible book value per share after this offering	6.41
Dilution per share to new investors	$ (14.59)

The following table summarizes, on a pro forma basis as of March 31, 2004, the differences between existing stockholders and the new investors with respect to the number of shares of common stock purchased from us, the total consideration paid and the average price per share paid before deducting the underwriting discounts and commissions and estimated offering expenses payable by us.

	Shares Purchased		Total Consideration		Average Price
	Number	Percent	Amount	Percent	Per Share
Existing stockholders	82,798,773	87.3%	$ 482,012,000	65.7%	$ 5.82
New investors	12,000,000	12.7%	252,000,000	34.3%	21.00
Total	94,798,773	100.0%	$ 734,012,000	100.0%	$ 7.74

The foregoing table assumes no exercise of stock options or warrants. As of March 31, 2004, there were options outstanding to purchase 10,574,475 shares of common stock at a weighted average exercise price of $2.3046 per share and warrants outstanding to purchase 3,137,460 shares of common stock at a weighted average exercise price of $ 0.2304 per share. To the extent outstanding options and warrants are exercised, there will be further dilution to new investors. If these outstanding options and warrants were exercised in full, the additional dilution would be approximately $0.58 per share to new investors, based on receipt of the monetary consideration for the shares and the increase in the number of shares outstanding resulting from those exercises.

If the underwriters over-allotment option is exercised in full, the number of shares of common stock held by existing stockholders will be reduced to 83.5% of the total number of shares of common stock outstanding after this offering, and the number of shares of common stock held by new investors will be increased to 15,600,000 shares, or 16.5% of the total number of shares of common stock outstanding after this offering.

Table of Contents

Index to Financial Statements

SELECTED CONSOLIDATED FINANCIAL AND OTHER DATA

The following table sets forth selected consolidated financial and other data of MetroPCS Communications, Inc. as of and for the years ended December 31, 1999, 2000, 2001, 2002 and 2003 and as of and for the three months ended March 31, 2003 and 2004. We derived our selected consolidated financial data as of December 31, 2002 and 2003 and for each of the three years in the period ended December 31, 2003 from the consolidated financial statements, which were audited by PricewaterhouseCoopers LLP and are included elsewhere in this prospectus. We derived our selected consolidated financial data as of December 31, 2001 from the consolidated financial statements, which were audited by PricewaterhouseCoopers LLP. We derived our selected consolidated financial data as of and for the years ended December 31, 1999 and 2000 from the consolidated financial statements, which were audited by Arthur Andersen LLP. We derived our selected consolidated financial data as of and for the three months ended March 31, 2003 and 2004 from our unaudited consolidated financial statements, which are included elsewhere in this prospectus. You should read the selected consolidated financial and other data in conjunction with Capitalization, Management s Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements, including the notes thereto, included elsewhere in this prospectus.

	Year Ended December 31,					Three Months Ended March 31,	
	1999	2000	2001	2002	2003	2003	2004
	(Dollars in thousands, except per share data)						
Statement of Operations Data:							
Revenues:							
Service revenues	$	$	$	$ 102,137	$ 370,920	$ 75,999	$ 132,921
Equipment revenues				23,458	88,562	23,399	40,077
Total revenues				125,595	459,482	99,398	172,998
Operating expenses:							
Cost of service (excluding depreciation included below)				61,881	118,335	25,929	40,909
Cost of equipment				100,651	155,084	44,213	64,047
Selling, general and administrative expenses (excluding non-cash compensation)	3,170	3,411	27,963	55,515	90,556	18,046	28,916
Non-cash compensation	1,002	1,222	1,455	1,115	7,379	241	3,256
Depreciation and amortization	8	3	208	21,394	41,900	9,047	12,774
(Gain) loss on sale of assets				(278,956)(1)	333	111	87
Total operating expenses	4,180	4,636	29,626	(38,400)	413,587	97,587	149,989
Income (loss) from operations	(4,180)	(4,636)	(29,626)	163,995	45,895	1,811	23,009
Other (income) expense:							
Interest expense	15,261	16,142	10,491	6,805	11,254	1,755	5,572
Interest income	(67)	(169)	(2,046)	(964)	(1,061)	(140)	(616)
(Gain) loss on extinguishment of debt			7,109		(603)		(201)
Total other (income) expense	15,194	15,973	15,554	5,841	9,590	1,615	4,755
Income (loss) before income taxes and cumulative effect of change in accounting principle	(19,374)	(20,609)	(45,180)	158,154	36,305	196	18,254
Provisions for income taxes				(19,087)	(15,665)	(113)	(7,417)

Income (loss) before cumulative effect of change in accounting principle	(19,374)	(20,609)	(45,180)	139,067	20,640	83	10,837
Cumulative effect of change in accounting principle, net of tax					(74)	(74)	
Net income (loss)	(19,374)	(20,609)	(45,180)	139,067	20,566	9	10,837
Accrued dividends on Series C preferred stock	(400)	(422)					
Accrued dividends on Series D preferred stock		(195)	(4,963)	(10,838)	(18,749)	(4,268)	(4,747)
Net income (loss) applicable to common stock	$ (19,774)	$ (21,226)	$ (50,143)	$ 128,229	$ 1,817	$ (4,259)	$ 6,090
Income (loss) per share:							
Income (loss) per share before cumulative effect of change in accounting principle basic	$ (0.86)	$ (0.76)	$ (1.44)	$ 2.26	$ 0.02	$ (0.12)	$ 0.08
Cumulative effect per share of change in accounting principle, net of tax basic					(0.00)	(0.00)	
Net income (loss) per share basic	(0.86)	(0.76)	(1.44)	2.26	0.02	(0.12)	0.08
Net income (loss) per share diluted	(0.86)	(0.76)	(1.44)	1.71	0.02	(0.12)	0.06
Other Financial and Operating Data (GAAP):							
Net cash provided by (used in) operating activities	$ (9,884)	$ (9,463)	$ (32,401)	$ (64,523)	$ 109,618	$ (4,826)	$ 24,368
Net cash provided by (used in) investing activities	(669)	(15,093)	24,183	(73,494)	(137,321)	(26,623)	(70,527)
Net cash provided by (used in) financing activities	10,420	31,015	41,708	157,066	201,951	5,581	(4,697)
Cash used for capital expenditures	669	93	133,604	212,305	117,212	26,899	73,338
Other Financial and Operating Data (Non-GAAP):							
Adjusted EBITDA (2)	$ (3,170)	$ (3,411)	$ (27,963)	$ (92,452)	$ 95,507	$ 11,210	$ 39,126
Adjusted EBITDA margin (3)					21%	11%	23%

20

Table of Contents

Index to Financial Statements

	As of December 31,					As of March 31,
	1999	2000	2001	2002	2003	2004
	(In thousands)					
Balance Sheet Data:						
Cash and cash equivalents	$ 2,719	$ 9,178	$ 42,668	$ 61,717	$ 235,965	$ 185,109
Property and equipment, net	995	98	169,459	353,360	482,965	519,549
Total assets	108,296	126,520	324,010	562,922	902,494	895,220
Total debt, net of unamortized discount	79,697	81,251	48,548	50,850	195,795	193,102

(1) In February 2002, we sold 10 MHz of excess spectrum in our Atlanta market resulting in a pre-tax gain of $279.0 million.

(2) We utilize certain financial measures that are not calculated in accordance with GAAP to assess our financial performance. A non-GAAP financial measure is defined as a numerical measure of a company s financial performance that (i) excludes amounts, or is subject to adjustments that have the effect of excluding amounts, that are included in the comparable measure calculated and presented in accordance with GAAP in the statement of operations or statement of cash flows; or (ii) includes amounts, or is subject to adjustments that have the effect of including amounts, that are excluded from the comparable measure so calculated and presented.

We have presented adjusted EBITDA because this financial measure, in combination with other GAAP and non-GAAP financial measures, is an integral part of the internal reporting system utilized by management to facilitate evaluation of our ability to meet future debt service, capital expenditure and working capital requirements and fund future growth. Adjusted EBITDA is a supplement to GAAP financial information and should not be construed as an alternative to, or more meaningful than, cash flows from operating activities, as determined in accordance with GAAP. The following table reconciles adjusted EBITDA to net cash provided by (used in) operating activities.

	Year Ended December 31,					Three Months Ended March 31,	
	1999	2000	2001	2002	2003	2003	2004
	(In thousands)						
Calculation of Adjusted EBITDA:							
Net cash provided by (used in) operating activities	$ (9,884)	$ (9,463)	$ (32,401)	$ (64,523)	$ 109,618	$ (4,826)	$ 24,368
Interest expense, net interest income	15,194	15,973	8,445	5,841	10,193	1,615	4,956
Bad debt expense				(381)	(991)	(749)	(433)
Accretion of asset retirement obligation					(50)	(25)	(79)
Non-cash interest	(4,396)	(5,506)	(3,882)	(3,028)	(3,090)	(784)	(688)
Deferred rents			(949)	(1,853)	(1,160)	(414)	(435)
Cost of abandoned cell sites					(824)	(477)	(183)
Loss on impairment of property, plant and equipment		(987)					
Non-deferred tax				8,993	1,643		
Working capital changes	(4,084)	(3,428)	824	(37,501)	(19,832)	16,870	11,620
Adjusted EBITDA	$ (3,170)	$ (3,411)	$ (27,963)	$ (92,452)	$ 95,507	$ 11,210	$ 39,126

(3) Adjusted EBITDA margin is calculated by dividing adjusted EBITDA by total revenues.

Table of Contents

Index to Financial Statements

MANAGEMENT S DISCUSSION AND ANALYSIS

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Introduction

We are a wireless communications provider that offers digital wireless service in the San Francisco, Miami, Atlanta and Sacramento metropolitan areas. The year 2003 was the first full year of operations in all of our four market clusters. As a result of the significant growth we have experienced since we launched operations, our results of operations to date are not necessarily indicative of the results that can be expected in future periods. Moreover, we expect that our number of customers will continue to increase, which will continue to contribute to increases in our revenues and operating expenses.

We sell products and services to customers through our 50 company-owned retail stores as well as through relationships with indirect retailers. We primarily offer two monthly calling plans to our customers. One plan provides customers with unlimited calling within the local calling area for $35 per month; the other plan provides customers with unlimited calling from within a local calling area to anywhere within the continental United States for $40 per month. For additional fees, we also provide caller ID, voicemail, text messaging, camera functions, downloads of ringtones, games and content applications, international long distance and other value-added services. In 2002, we offered only one handset to customers for $149. Our offering of handsets has grown and as of June 30, 2004 we offered seven different handsets priced from $109 to $239.

Recent Developments

Although full results for the second quarter of 2004 are not yet available, based upon information available to us and except as otherwise described in this prospectus, we are not aware and do not anticipate that our results for the second quarter will be adversely impacted, in the aggregate, by material or unusual adverse events, and we do not believe that, during the second quarter, we incurred material additional borrowings or other liabilities, contingent or otherwise, or defaulted under our debt covenants. Nevertheless, our actual results for the second quarter of 2004 may differ from these expectations and from the estimates disclosed below. Moreover, our results from the second quarter of 2004 and these estimates have not been compiled or examined by our independent registered public accounting firm which does not express an opinion or any other form of assurance with respect thereto. Our results for this interim period are not indicative of the results that can be expected for the full year.

The following are estimates for certain key financial results that we expect for the second quarter of 2004:

- total revenues of between $177 million and $183 million;
- operating income of between $34 million and $37 million;
- net income of between $17 million and $20 million; and

adjusted EBITDA of between $53 million and $57 million.

In addition, we expect to report approximately 63,200 net new customer additions and an average monthly churn rate of approximately 5.2% for the three months ended June 30, 2004.

Adjusted EBITDA is a supplement to GAAP financial information and should not be construed as an alternative to, or more meaningful than, GAAP financial information. We have not provided a reconciliation of our projected adjusted EBITDA to net cash provided by operating activities as to do so would require us to make projections of balance sheet amounts that we believe are not subject to meaningful projection. See Reconciliation of Non-GAAP Financial Measures for more information about adjusted EBITDA.

Table of Contents

Index to Financial Statements

On July 8, 2004, we entered into an agreement with NextWave Telecom, Inc. and certain of its affiliates to acquire two 10MHz licenses for $43.5 million. The licenses cover areas in southwest Florida (Tampa, St. Petersburg, Clearwater, Sarasota and Bradenton) with a population of approximately 3.3 million people. Consummation of the acquisition is subject to satisfaction of several conditions, including the approvals of the FCC and the bankruptcy court in which NextWave s Chapter 11 bankruptcy cases are pending. We intend to begin planning network deployment shortly and we expect to spend approximately $31.5 million, primarily in 2005, to complete the initial build out of our network and launch service in these areas.

Critical Accounting Policies and Estimates

The following discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. You should read this discussion and analysis in conjunction with our consolidated financial statements and the related notes thereto contained elsewhere in this prospectus. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates, including those related to revenue recognition, allowance for doubtful accounts, inventory valuations, deferred income taxes, and the impairment of long-lived and indefinite-lived assets. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Our customers pay in advance for our services. In accordance with generally accepted accounting principles, amounts received in advance are recorded on our balance sheet as deferred revenue, and are recognized as service revenues on our statement of operations only when the services are actually rendered. Although our billing system properly calculates the amount due from customers for service and properly records customer payments, it is not integrated with our accounting system and does not calculate service revenues or deferred revenue balances on a customer-by-customer basis. As a result, management calculates gross service revenues based on the average number of customers within each service offering multiplied by the price of the relevant service offering. Gross service revenues are then reduced by an amount attributable to the estimated number of customers included in our customer counts with handsets that have been disenabled, or hotlined, and whose service will be disconnected before they make a payment. Management s controls over this process include detailed manual reconciliations between our billing system and our general ledger to insure that the balances in our deferred revenue accounts on the balance sheet are properly stated and we have properly recorded service revenues on our statement of operations.

In July 2003, during the preparation of quarterly financial statements, management noted that the balance of the deferred revenue accounts relative to service revenues had fluctuated from period to period in an inconsistent manner. Management called this inconsistency to the attention of our auditors. In August 2003, prior to the time that MetroPCS, Inc. became a reporting company under the Securities Exchange Act of 1934, management and our auditors noted that the reconciliation of deferred revenue did not include all the appropriate accounts receivable and deferred revenue accounts, and was not prepared on a timely basis. In September 2003, management concluded that we were understaffed in our revenue accounting function and that we did not have personnel with the appropriate experience required to properly account for activity resulting from the billing system.

Management immediately began to implement steps to improve the capabilities and reliability of our financial and accounting systems in order to provide reasonable assurance that our financial statements would not contain a material misstatement. At that time, our Chief Financial Officer began devoting substantial additional attention to our revenue accounting function in order to augment the Controller s increased focus on this area that had begun in July 2003. In September 2003, we hired a Director of External Reporting, which enabled our

23

Table of Contents

Index to Financial Statements

Controller to devote additional time to our revenue accounting function. In October 2003, we began a search for additional accounting personnel with relevant training and experience in this area. Management believes the increased attention by our Chief Financial Officer and our Controller during the second half of 2003 was sufficient to remediate any understaffing in our revenue accounting function. In December 2003, we hired a Vice President Controller and a Director of Revenue Accounting, whose responsibilities include direct oversight and supervision of our revenue accounting function. These new personnel assumed their positions with us in early January 2004.

In October 2003, in connection with the review of our interim financial statements, our auditors issued a letter to us describing these deficiencies. In February 2004, in connection with the audit of our financial statements for the year ended December 31, 2003, our auditors identified the lack of automation in the revenue reporting process as a material weakness in our internal controls over revenue reporting. The Public Company Accounting Oversight Board has defined material weakness as a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. This means that there is a risk that a material misstatement in the deferred revenue accounts and the related service revenue accounts in our financial statements for a future period is reasonably possible.

To address revenue reporting, management made significant changes to the manual calculation and reconciliation processes to insure proper revenue reporting, including implementation of the following procedures by the end of the third quarter of 2003:

- a more timely and complete monthly reconciliation of accounts receivable balances provided by our billing system to the corresponding balances in our general ledger and the related deferred revenue accounts;
- monthly comparative analyses of our balance sheet account and income statement account trends, and monthly actual-to-budget variance analyses of income statement accounts; and
- monthly comparative analysis of revenues per customer compared to prior months and compared to budget, on both a market-by-market basis and a company-wide basis.

We began a monthly reconciliation of cash received to recorded revenues and deferred revenues that was utilized in the December 31, 2003 year-end close.

As a result of these procedures, management and our auditors identified and recorded adjustments to our deferred revenue and service revenues accounts during the course of the preparation of the financial statements for the related periods. These adjustments totaled $110,000 for the three months ended December 31, 2003, or 0.1% of service revenues and 1.2% of income from operations for such period, and $665,000 for the three months ended March 31, 2004, or 0.5% of service revenues and 2.9% of income from operations for such period. These procedures also resulted in reclassification entries on our balance sheet prior to its issuance to properly classify amounts between deferred revenues and other liability accounts related to taxes and other charges to customers.

Management believes that the implementation of these procedures, together with the recording of the resulting adjustments prior to issuance of the related financial statements, were sufficient to permit it to conclude that the material weakness in our internal controls over revenue reporting had not resulted in a material misstatement of our financial statements.

To further enhance our internal controls, as discussed above, we have added a Vice President, Controller and a Director of Revenue Accounting, each of whom has several years of relevant experience with revenue and billing systems in the telecommunications industry. We have also hired a senior accounting professional whose focus is to make sure that we are effectively utilizing all of the functions available in our billing system, expand the related reporting capabilities, and continue to enhance and further automate our processes related to revenue

Table of Contents

Index to Financial Statements

accounting. We have increased the overall size of the revenue accounting staff from three persons during most of 2003 to a staff of six currently. In order to reduce the risk of manual errors, we are automating the summarization and transfer of information from our billing system to our general ledger. We are also developing reports that will substantially improve our control over the revenue calculation and deferred revenue reconciliation process.

While these efforts represent significant steps in remediating the material weakness, management believes, and our auditors have advised us based on their review of our financial statements for the three months ended March 31, 2004, that the material weakness still exists due to the lack of automation in this area. Moreover, our auditors have advised us that they will not be able to confirm that the material weakness has been fully remediated until they complete an audit of our financial statements. We expect our next audit to be completed in March 2005.

Remediation of the material weakness requires the automation of reports, including the development of reporting that details the deferred revenue and service revenues accounts on a customer-by-customer basis. Remediation will also require the automation of the transfer of information between our billing system and our general ledger, which is currently being performed manually. Development of these automated processes is currently ongoing. Although we intend to eliminate the material weakness by December 31, 2004, we cannot assure you that we will be able to do so.

We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our consolidated financial statements.

Revenue Recognition

Our wireless services are provided on a month-to-month basis and are paid in advance. We recognize revenues from wireless services as they are rendered. Amounts received in advance are recorded as deferred revenue. Disenabling service for non-payment is known as hotlining. We do not recognize revenue on hotlined customers.

Revenues and related costs from the sale of accessories are recognized at the point of sale. The cost of handsets sold to indirect retailers are included in deferred charges until they are sold to and activated by customers. Amounts billed to indirect retailers for handsets are recorded as accounts receivable and deferred revenue upon shipment by us and are recognized as equipment revenues when service is activated by customers. Customers have the right to return handsets within a specified time or usage, whichever occurs first. Of the total paid by a new customer for a handset and activation, we record an activation fee of $15, which, since July 1, 2003, is generally recognized in equipment revenue at the time service is activated. We record an estimate for returns at the time of recognizing revenue.

Beginning July 1, 2003, we implemented EITF No. 00-21, Accounting for Revenue Arrangements with Multiple Deliverables, prepared by the Emerging Issues Task Force, or EITF, of the Financial Accounting Standards Board, or FASB. EITF 00-21 requires us to allocate amounts charged to customers between the sale of handsets and the sale of wireless telecommunication services on a relative fair value basis. This has resulted in the amount collected from the customer being allocated to the sale of the handset and to the first month s service fee. As a result of this treatment, activation fees included in the consideration at the time of sale are generally recorded as handset revenue. Prior to the adoption of EITF 00-21, we had deferred activation fee revenue and amortized these revenues over the average life of our customers. The existing deferred revenue at July 1, 2003 is being amortized over the average life of our customers. On October 1, 2003, we changed the estimated average customer life from 25 months to 14 months, based on historical disconnect rates, resulting in an increase in activation revenue of $5.1 million in the fourth quarter of 2003 over amounts that would have been recognized using the prior estimated average life.

Allowance for Doubtful Accounts and Returns

We maintain allowances for doubtful accounts for estimated losses resulting from the inability of our indirect retailers to pay for equipment purchases and for returns. If the financial condition of a material portion of

Table of Contents

Index to Financial Statements

our indirect retailers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

Inventory

We write down our inventory for estimated obsolescence or unmarketable inventory equal to the difference between the cost of inventory and the estimated market value or replacement cost based upon assumptions about future demand and market conditions. If actual market conditions are less favorable than those projected, additional inventory write-downs may be required.

Deferred Income Tax Asset

We assess our deferred tax asset and record a valuation allowance, when necessary, to reduce our deferred tax asset to the amount that is more likely than not to be realized. We have considered future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for the valuation allowance. Should we determine that we would not be able to realize all or part of our net deferred tax asset in the future, an adjustment to the deferred tax asset would be charged to income in the period we made that determination.

We establish reserves when, despite our belief that our tax returns are fully supportable, we believe that certain positions may be challenged and ultimately modified. We adjust the reserves in light of changing facts and circumstances. Our effective tax rate includes the impact of reserve positions and changes to reserves that we consider appropriate. A number of years may elapse before a particular matter for which we have established a reserve is finally resolved. Unfavorable settlement of any particular issue would require the use of cash. Favorable resolution would be recognized as a reduction to the effective rate in the year of resolution. The tax reserves are presented on the balance sheet in other long term liabilities.

Impairment of Long-Lived Assets and Indefinite Lived Assets

We assess the impairment of long-lived assets, other than indefinite-lived intangible assets, whenever events or changes in circumstances indicate the carrying value may not be recoverable. Factors we consider important that could trigger an impairment review include significant underperformance relative to historical or projected future operating results or significant changes in the manner of use of the assets or in the strategy for our overall business. The carrying amount of a long-lived asset is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset. When we determine that the carrying value of a long-lived asset is not recoverable, we measure any impairment based upon a projected discounted cash flow method using a discount rate we determine to be commensurate with the risk involved.

Our primary indefinite-lived intangible assets are our FCC licenses. We test investments in our FCC licenses for impairment annually or more frequently if events or changes in circumstances indicate that our FCC licenses may be impaired. The impairment test consists of a comparison of the fair value with the carrying value. We segregate our FCC licenses by regional market for the purpose of performing the impairment test as each geographical region is unique.

Valuation of Common Stock

Historically, we have assessed the value of our common stock at the end of each reporting period for the purpose of determining stock compensation on variable stock options. This valuation was also used to determine deferred compensation, if any, on non-variable stock option awards granted in the period, as well as for purposes of determining whether a beneficial conversion feature was in existence at each draw date of our Series D cumulative convertible redeemable participating preferred stock. Factors we considered were recent sales of stock to third parties, enterprise valuation ranges provided by third parties, the liquidation preference of our outstanding preferred stock, significant milestones achieved in the business, as well as the overall economic climate of the wireless industry.

Table of Contents

Index to Financial Statements

Customer Recognition and Disconnect Policies

When a new customer subscribes to our service, the first month of service and activation fee is included with the handset purchase. Under GAAP, we are required to allocate the purchase price to each of the handset, the first month of service and the activation fee. Generally, the amount allocated to the handset will be less than our cost, and this difference is included in cost per gross addition, or CPGA. We recognize new customers as gross additions upon activation of service. We offer our customers the MetroPCS Promise, which allows a customer to return a newly purchased handset for a full refund prior to the earlier of seven days or 60 minutes of use. Customers who return their phones under the MetroPCS Promise are reflected as a reduction to gross additions. Customers monthly service payments are due in advance every month. Our customers must pay their monthly service amount by the payment date or their handset will be disenabled, or hotlined, and the customer will not be able to make or receive calls on our network. There is no service grace period. Any call attempted by a hotlined customer is routed directly to our interactive voice response system and customer service center in order to arrange payment. If the customer pays the amount due within 30 days of the original payment date then the customer s handset is unhotlined and service is restored. If a hotlined customer does not pay the amount due within 30 days of the payment date the account is disconnected and counted as churn. Once an account is disconnected, upon reactivation, we charge a $15 reconnect fee to reestablish service and the revenue associated with this fee is deferred and recognized over the estimated life of the customer.

Revenues

We derive our revenues from the following sources:

Service. We sell wireless personal communications services. The various types of service revenues associated with wireless communications services for our customers include monthly recurring charges for airtime, monthly recurring charges for optional features (including voicemail and text messaging) and charges for long distance service. Service revenues also include intercarrier compensation and non-recurring activation service charges to customers to the extent not allocated to handset revenue. See Critical Accounting Policies and Estimates Revenue Recognition.

Equipment. We sell wireless personal communications handsets and accessories that are used by our customers in connection with our wireless services. This equipment is also sold to indirect retailers to facilitate distribution to our customers.

Costs and Expenses

Our costs and expenses include:

Cost of Service. The major components of our cost of service are:

Variable Long Distance. We pay charges to other communications companies for long distance service provided to our customers. These variable charges are based on our customers usage, applied at pre-negotiated rates with the long-distance carriers.

Intercarrier Compensation. We pay charges to other communications companies for their transport and termination of calls originated by our customers and destined for customers of other networks. These variable charges are based on our customers usage and generally applied at pre-negotiated rates with other carriers, although some carriers have sought to impose such charges unilaterally. Historically, these charges have been declining on a per minute basis and we expect them to continue to decline, due principally to competitive pressures and new technologies.

Cell Site Costs. We incur expenses for the rent of towers, network facilities, engineering operations, field technicians and related utility and maintenance charges.

Cost of Equipment. We purchase personal communications handsets and accessories from third-party vendors to resell to our customers and indirect retailers in connection with our services. We subsidize the sale of handsets to encourage the sale and use of our services. We do not manufacture any of this equipment.

Table of Contents

Index to Financial Statements

Selling, General and Administrative Expenses. Our selling expense includes advertising and promotional costs associated with capturing new customers and fixed charges such as store rent and retail associates salaries. General and administrative expense includes support functions, including technical operations, finance, accounting, human resources, information technology and legal services.

Non-cash Compensation. We record compensation expense associated with employee stock options issued below estimated fair market value at the date of grant. In addition, we record compensation expense at the end of each reporting period with respect to our variable stock options.

Depreciation and Amortization. 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, including computer equipment, and three to seven years for furniture and fixtures. Leasehold improvements are amortized over the term of the respective leases or the estimated useful life of the improvement, whichever is shorter.

Interest Expense and Interest Income. Interest expense consists of interest on our FCC notes based on an estimated fair market borrowing rate at the time of issuance, of which 6.5% is paid in cash, and interest on our senior notes. Interest income is earned primarily on our cash and cash equivalents.

Income Taxes. As a result of our operating losses and additional depreciation available under federal tax laws in 2003, we have paid no federal income tax to date. In addition, we have paid an immaterial amount of state income taxes to date.

Results of Operations

Three Months Ended March 31, 2004 Compared to Three Months Ended March 31, 2003

Set forth below is a summary of certain financial information for the periods indicated:

	Three Months Ended March 31,		
	2003	**2004**	**Change**
	(In thousands)		
Revenues			
Service revenues	$ 75,999	$ 132,921	75%
Equipment revenues	23,399	40,077	71%
Cost of service (excluding depreciation included below)	25,929	40,909	58%
Cost of equipment	44,213	64,047	45%

Selling, general and administrative expenses (excluding non-cash compensation included below)	18,046	28,916	60%
Non-cash compensation	241	3,256	*
Depreciation and amortization	9,047	12,774	41%
Interest expense	1,755	5,572	217%
Net income	9	10,837	*

* Not meaningful.

Revenues. For the three months ended March 31, 2004, our total revenues increased $73.6 million, or 74%, to $173.0 million from $99.4 million for the comparable period in 2003.

Service revenues accounted for 77% of total revenues and equipment revenues accounted for 23% of total revenues for the three months ended March 31, 2004. Service revenues increased $56.9 million, or 75%, to $132.9 million for the three months ended March 31, 2004 from $76.0 million for the three months ended March 31, 2003. The increase was attributable to the continued strong demand for service in our four market clusters resulting in a 73% increase in average number of customers.

Table of Contents

Index to Financial Statements

Equipment revenues increased $16.7 million, or 71%, to $40.1 million for the three months ended March 31, 2004 from $23.4 million for the three months ended March 31, 2003. During 2003, we significantly expanded our handset product line, leading to significant upgrade sales to existing customers. Handset sales to existing customers increased to $16.7 million of revenue during the first quarter of 2004, as compared to $1.0 million of revenue in the first quarter of 2003. The remaining increase was attributable to the revenues generated by new customers selecting handsets from our expanded product line.

Cost of Service. Cost of service increased $15.0 million, or 58%, to $40.9 million for the three months ended March 31, 2004 from $25.9 million for the three months ended March 31, 2003. This increase was due to the overall growth of our business and an increase in our customer base, including a $4.2 million increase in long distance costs, a $3.8 million increase in call center expenses, a $1.1 million increase in billing expenses, and a $0.9 million increase in E-911 fees.

Cost of Equipment. Cost of equipment increased $19.8 million, or 45%, to $64.0 million for the three months ended March 31, 2004 from $44.2 million for the three months ended March 31, 2003. This increase was attributable to our overall increase in customers as well as our increase in the number of equipment upgrades purchased by our existing customers due to our offering a broader line of handsets in 2004. Cost of equipment related to existing customers totaled $21.2 million during the first quarter 2004 as compared to $2.5 million for the same period last year.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased $10.9 million, or 60%, to $28.9 million for the three months ended March 31, 2004 from $18.0 million for the three months ended March 31, 2003. Selling expenses increased by approximately $2.3 million as a result of increased sales and marketing activities, including advertising expenses aimed at growing our customer base. General and administrative expenses increased by $8.6 million. This increase was due to the overall growth of our business, including a $2.4 million increase in property taxes, a $2.0 million increase in software and data services, a $1.6 million increase in professional services, a $1.1 million increase in credit card and bank charges, a $0.5 million increase in employee related costs, and a $1.0 million increase in building lease, insurance and other expenses.

Non-cash Compensation. Non-cash compensation was $3.3 million for the three months ended March 31, 2004, compared to $0.2 million for the three months ended March 31, 2003. The increase was primarily due to the increase in the estimated fair market value of our stock, which resulted in a $3.0 million charge related to outstanding options accounted for under variable accounting.

Depreciation and Amortization. Depreciation and amortization expense increased $3.7 million, or 41%, to $12.8 million for the three months ended March 31, 2004 from $9.0 million for the three months ended March 31, 2003. The increase related primarily to the increase in network assets in service for the period. In-service base stations and switching equipment increased by 33% from the three months ended March 31, 2003. In addition, we had 177 more cell sites in service at March 31, 2004 than at March 31, 2003. We expect depreciation to continue to increase due to the additional cell sites and switches that we plan to place in service to meet future customer growth and usage.

Interest Expense. Interest expense was $5.6 million for the three months ended March 31, 2004, compared to $1.8 million for the three months ended March 31, 2003. This increase was due to interest on our $150.0 million of 10 $^{3}/4$% senior notes issued in September 2003.

Net Income. Net income was $10.8 million for the three months ended March 31, 2004, compared to $9,000 for the three months ended March 31, 2003.

Table of Contents

Index to Financial Statements

Set forth below is a summary of certain non-GAAP financial information for the periods indicated:

	Three Months Ended March 31,		
	2003	**2004**	**Change**
Customers:			
End of period	708,965	1,150,954	62%
Net additions	195,481	174,055	(11%)
Churn:			
Average monthly rate	3.5%	3.8%	9%
ARPU	$ 39.50	$ 40.00	1%
CPGA	104.97	96.74	(8%)
Adjusted EBITDA (In thousands)	11,210	39,126	249%

Customers. Net customer additions were 174,055 for the three months ended March 31, 2004, bringing our total customers to 1,150,954 as of March 31, 2004, an increase of 62% over the customer total as of March 31, 2003. Since March 31, 2003, we have expanded our network, offered new handsets and service plans and expanded our distribution network. Although we have a limited operating history, we have historically generated the highest number of net customer additions during the first calendar quarter, with the second highest number being generated during the fourth calendar quarter. In addition, periods in which we have generated high numbers of net customer additions typically are followed by periods of higher churn. As a result, we expect our churn rate for the three months ended June 30, 2004 to be higher than we experienced during the three months ended March 31, 2004.

Churn. The average monthly rate of customer turnover, or churn, was 3.8% and 3.5% for the three months ended March 31, 2004 and 2003, respectively. Average monthly churn represents (a) the number of customers who have been disconnected from our system during the measurement period less the number of customers who have reactivated service, divided by (b) the sum of the average monthly number of customers during such period.

Average Revenue Per User. Average revenue per user, or ARPU, was $40.00 and $39.50 for the three months ended March 31, 2004 and 2003, respectively. ARPU represents (a) service revenues less activation revenues and E-911 charges for the measurement period, divided by (b) the average number of customers during such period, divided by (c) the number of months in such period. The $0.50, or 1%, increase in ARPU was primarily the result of the increase in customers electing the unlimited long distance service plan, offset in part by an increase in customers who did not pay for their service while in hotlined status. Revenue is only recognized for customers who pay for service. However, hotlined customers are included in our customer base until they are deactivated, and are therefore counted in the denominator of the ARPU calculation although there is no corresponding revenue recorded for these hotlined customers in the numerator. Once a customer is deactivated, they are removed from the customer base and no longer included in the denominator of the ARPU calculation. For more detail regarding our calculation of ARPU, refer to Reconciliation of Non-GAAP Financial Measures below.

Cost Per Gross Addition. Cost per gross addition, or CPGA, was $96.74 and $104.97 for the three months ended March 31, 2004 and 2003, respectively. The $8.23, or 8%, decrease was primarily the result of lower handset subsidies and spreading selling costs over a larger number of gross additions. CPGA is determined by dividing (a) selling expenses plus the total cost of equipment associated with transactions with new customers less activation revenues and equipment revenues associated with transactions with new customers during the measurement period by (b) gross customer additions during such period. Retail customer service expenses and equipment margin on handsets sold to existing customers, including handset upgrade transactions, are excluded, as these costs are incurred specifically for existing customers. For more detail regarding our calculation of CPGA, refer to Reconciliation of Non-GAAP Financial Measures below.

Adjusted Earnings Before Interest, Taxes, Depreciation and Amortization. Adjusted earnings before interest, taxes, depreciation and amortization, or adjusted EBITDA, was $39.1 million and $11.2 million for the three months ended March 31, 2004 and 2003, respectively. For more detail regarding our calculation of adjusted EBITDA, refer to Reconciliation of Non-GAAP Financial Measures below.

Table of Contents

Index to Financial Statements

Year Ended December 31, 2003 Compared to Year Ended December 31, 2002

Set forth below is a summary of certain financial information for the periods indicated:

	2002	2003	Change
	(In thousands)		
Revenues			
Service revenues	$ 102,137	$ 370,920	263%
Equipment revenues	23,458	88,562	278%
Cost of service (excluding depreciation included below)	61,881	118,335	91%
Cost of equipment	100,651	155,084	54%
Selling, general and administrative expenses (excluding non-cash compensation included below)	55,515	90,556	63%
Non-cash compensation	1,115	7,379	562%
Depreciation and amortization	21,394	41,900	96%
Net income	139,067	20,566	(85%)

Revenues. Total revenues increased $333.9 million, or 266%, to $459.5 million for the year ended December 31, 2003 from $125.6 million for the year ended December 31, 2002.

Service revenues increased $268.8 million, or 263%, to $370.9 million for the year ended December 31, 2003 from $102.1 million for the year ended December 31, 2002. The increase was attributable to the timing of the commercial launch of our four market clusters and a 268% increase in the average number of our customers. We launched service in our Miami market in January 2002, in our Atlanta and Sacramento market clusters in February 2002, and in our San Francisco market cluster in September 2002. We launched commercial operations on the west coast of southern Florida in October 2003.

Equipment revenues increased $65.1 million, or 278%, to $88.6 million for the year ended December 31, 2003 from $23.5 million for the year ended December 31, 2002. The increase was attributable to a 43% increase in gross additions and a 99% increase in revenue per handset and upgrade sales to our existing customers, resulting in an increase of $16.6 million in equipment revenues. In 2002, we offered only one handset model to new customers.

Cost of Service. Cost of service increased $56.5 million, or 91%, to $118.3 million for the year ended December 31, 2003 from $61.9 million for the year ended December 31, 2002. The increase was attributable to the timing of the commercial launch of our four market clusters and the increase in our number of customers, which resulted in a $16.0 million increase in interconnect fees, a $12.9 million increase in call center expenses, a $7.8 million increase in billing expenses, a $6.5 million increase in long distance costs, a $5.8 million increase in E-911 fees. Additionally, employee costs, cell site and switch facility lease expense and repair and maintenance expense increased as a result of the growth of our business and the expansion of our network.

Cost of Equipment. Cost of equipment increased by $54.4 million, or 54%, to $155.1 million for the year ended December 31, 2003 from $100.7 million for the year ended December 31, 2002. The increase was due to a 66% increase in the number of handsets sold offset by a 7% reduction in average handset cost per unit.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased $35.0 million, or 63%, to $90.6 million for the year ended December 31, 2003 from $55.5 million for the year ended December 31, 2002. Selling expenses increased by $17.6 million as a result of increased sales and marketing activities. General and administrative expenses increased by $17.4 million primarily due to the increase in our customer base and to network expansion, including a $5.8 million increase in transaction fees for customer collections, a $2.1 million increase in handset repair fees, a $3.0 million increase employee salaries and benefits, a $1.5 million increase in maintenance agreements for our network facilities, a $1.5 million increase in property insurance and a $1.1 million increase in professional fees.

Table of Contents

Index to Financial Statements

Non-cash Compensation. Non-cash compensation increased $6.3 million to $7.4 million for the year ended December 31, 2003 from $1.1 million for the year ended December 31, 2002, as a result of an increase in the estimated fair market value of our stock used for valuing stock options accounted for under variable accounting.

Depreciation and Amortization. Depreciation and amortization expense increased $20.5 million, or 96%, to $41.9 million for the year ended December 31, 2003 from $21.4 million for the year ended December 31, 2002. The increase related primarily to the increase in network assets in service due to the timing of the commercial launch of our four market clusters. In-service base stations and switching equipment increased by $123.4 million during the year ended December 31, 2003. In addition, we had 142 more cell sites in service at December 31, 2003 than at December 31, 2002. We expect depreciation to continue to increase due to the additional cell sites and switches that we plan to place in service to meet future customer growth and usage.

Interest Expense. Interest expense increased $4.5 million, or 65%, to $11.3 million for the year ended December 31, 2003 from $6.8 million for the year ended December 31, 2002. The increase was primarily attributable to additional interest on our $150.0 million of 10 $^{3}/4$% senior notes issued in September 2003.

Net Income. Net income decreased $118.5 million, or 85%, to $20.6 million for the year ended December 31, 2003 from $139.1 million for the year ended December 31, 2002. Net income for the year ended December 31, 2002 included a $279.0 million ($245.3 million after tax) gain on the sale of 10 MHz of spectrum in our Atlanta market.

Set forth below is a summary of certain non-GAAP financial information for the periods indicated:

	2002	2003	Change
Customers:			
End of period	513,484	976,899	90%
Net additions	513,484	463,415	(10%)
Churn:			
Average monthly rate	4.4%	4.6%	5%
ARPU	$ 39.17	$ 37.68	(4%)
CPGA	158.50	99.86	(37%)
Adjusted EBITDA (In thousands)	(92,452)	95,507	*

* Not meaningful.

Customers. Net customer additions were 463,415 for the year ended December 31, 2003, bringing our total customers to 976,899 as of December 31, 2003, an increase of 90% over the customer total as of December 31, 2002. This increase was due to the timing of our commercial launch and the continued demand for our service offering.

Churn. The average monthly churn rate was 4.6% and 4.4% for the years ended December 31, 2003 and 2002, respectively.

Average Revenue Per User. ARPU was $37.68 and $39.17 for the years ended December 31, 2003 and 2002, respectively. The $1.49, or 3.8%, decrease in ARPU was primarily the result of an increase in customers that did not pay for service while in hotlined status. For more detail regarding our calculation of ARPU, refer to Reconciliation of Non-GAAP Financial Measures below.

Cost Per Gross Addition. CPGA was $99.86 and $158.50 for the years ended December 31, 2003 and 2002, respectively. The $58.64, or 37%, decrease in CPGA was the result of an increase in activation fees revenue as well as lower per unit handset subsidies. Equipment costs for handsets sold to existing customers, including handset upgrade transactions, are excluded from CPGA as these costs are incurred specifically for existing customers. For more detail regarding our calculation of CPGA, refer to Reconciliation of Non-GAAP Financial Measures below.

Table of Contents

Index to Financial Statements

Adjusted EBITDA. Adjusted EBITDA increased $188.0 million to $95.5 million for the year ended December 31, 2003 from an adjusted EBITDA deficit of $92.5 million for the year ended December 31, 2002. The increase was primarily the result of customer and revenue growth and spreading operating costs over a larger customer base. For more detail regarding our calculation of adjusted EBITDA, refer to Reconciliation of Non-GAAP Financial Measures below.

Year Ended December 31, 2002 Compared to Year Ended December 31, 2001

Set forth below is a summary of certain financial information for the periods indicated:

	2001	2002	Change
	(In thousands)		
Selling, general and administrative expenses (excluding non-cash compensation included below)	$ 27,963	$ 55,515	99%
Non-cash compensation	1,455	1,115	(23)%
Depreciation and amortization	208	21,394	*
Net income (loss)	(45,180)	139,067	*

* Not meaningful.

Revenues. Total revenues were $125.6 million for the year ended December 31, 2002. We were a development stage company until our commercial launch in January 2002; therefore, we had no revenues in 2001.

Service revenues were $102.1 million for the year ended December 31, 2002. Our customer base grew to approximately 513,000 customers at December 31, 2002. ARPU was $39.17 for the year ended December 31, 2002.

Equipment revenues were $23.5 million for the year ended December 31, 2002. We did not sell handsets or other products prior to 2002.

Cost of Service. Cost of service was $61.9 million for the year ended December 31, 2002. We had no cost of service in 2001.

Cost of Equipment. Cost of equipment was $100.7 million for the year ended December 31, 2002. We did not sell handsets or other products prior to 2002; therefore, we had no cost of equipment in 2001.

Selling, General and Administrative Expenses. Selling, general and administrative expenses including non-cash compensation increased $27.2 million, or 93%, to $56.6 million for the year ended December 31, 2002 from $29.4 million for the year ended December 31, 2001. Selling expenses were $26.5 million in 2002, compared to no selling expenses in 2001. General and administrative expenses were $30.1 million in 2002, which included additional staffing due to the timing of the launch of our business. General and administrative expenses in 2001 were $29.4 million, which included $9.5 million primarily related to build-out activities, which prior to commercial launch were classified in general and administrative expenses.

Depreciation and Amortization. Depreciation and amortization expense was $21.4 million for the year ended December 31, 2002, compared to $0.2 million for the year ended December 31, 2001. The increase related primarily to depreciating wireless network assets for the switches and cell sites put into operation during 2002, along with depreciating furniture and equipment purchased for our offices and retail stores.

Interest Expense and Interest Income. Interest expense decreased $3.7 million, or 35%, to $6.8 million for the year ended December 31, 2002 from $10.5 million for the year ended December 31, 2001. This decrease resulted from a reduction of a portion of our FCC notes following our sale of spectrum in 2002 and the settlement of notes to an equipment vendor in the third quarter of 2001. Interest income was $1.0 million for the year ended December 31, 2002, as compared to $2.0 million for the year ended December 31, 2001. This decrease was due to a decline in interest rates on our short-term investments as well as lower average cash balances.

Table of Contents

Index to Financial Statements

Net Income. Net income was $139.1 million for the year ended December 31, 2002, as compared to a net loss of $45.2 million for the year ended December 31, 2001. Net income for the year ended December 31, 2002 included a $279.0 million ($245.3 million after tax) gain on the sale of 10 MHz of spectrum in our Atlanta market.

Liquidity and Capital Resources

The construction of our network and the marketing and distribution of our wireless communications products and services have required, and will continue to require, substantial capital investment. Capital outlays have included license acquisition costs, capital expenditures for network construction, funding of operating cash flow losses and other working capital costs, debt service and financing fees and expenses. We estimate that our aggregate capital expenditures for 2004, which will be primarily associated with our efforts to increase the capacity of our network through the addition of cell sites and switches, will be approximately $230 million, of which $49.2 million had been incurred through March 31, 2004. A portion of this amount includes the cost to begin the build out of our network for the newly acquired licensed areas in northern California; however, this amount does not include the cost to acquire the licenses and build out our network if we are successful in consummating the acquisition of the two licenses in southwest Florida discussed in Recent Developments. Our estimated capital expenditures for 2004 represent an increase of approximately $20 million from our prior estimates, primarily due to additional network capacity requirements necessitated by the increased demand of adding more subscribers than planned whose average usage is higher than planned. We believe the increased service area and capacity will improve our service offering and thereby help us to attract additional customers and increase revenues. We believe our cash on hand and cash generated from operations will be sufficient to meet our projected capital requirements for the foreseeable future. The net proceeds we receive from this offering will allow us to continue the expansion of our networks in existing markets and into new markets, including through acquisitions, and maintain a cash liquidity cushion. Although we estimate that these funds will be sufficient to finance our continued growth, we may have additional capital requirements, which could be substantial, for future network upgrades and advances in new technology.

Existing Indebtedness. As of March 31, 2004, we had $193.1 million of total indebtedness. This indebtedness consisted of $150.0 million of senior notes, $43.5 million face amount of FCC notes, which are recorded net of unamortized original issue discount of $4.2 million, and $3.8 million of debt associated with our obligation to other carriers for the cost of clearing microwave links in areas covered by our licenses. For a description of our existing indebtedness, see Description of Certain Indebtedness.

Other Long-Term Liabilities. As of December 31, 2003, we had approximately $20.6 million in other long-term liabilities, comprised of liabilities to certain network equipment providers, the primary cause of the increase, and our reserve for uncertain tax positions, as compared to $1.8 million as of December 31, 2002.

Historical Cash Flow. As of March 31, 2004, we had $185.1 million in cash and cash equivalents, as compared to $236.0 million at December 31, 2003. Cash provided by operating activities was $24.4 million during the three months ended March 31, 2004 as a result of net income of $10.8 million, $25.2 million of non- cash charges consisting primarily of depreciation and amortization, deferred expenses, accretion of interest and non-cash compensation, and $11.6 million of cash used for changes in working capital. Cash used in investing activities was $70.5 million during the three months ended March 31, 2004, relating to capital expenditures associated with increasing the capacity and expanding the footprint of our network during the first quarter of 2004 and payments made during the three months ended March 31, 2004 for network equipment accrued at December 31, 2003. We will continue to upgrade our network capacity and improve the quality of our service to support our anticipated customer growth and satisfy competitive requirements. Cash used by financing activities was $4.7 million during the three months ended March 31, 2004, primarily due to a $3.1 million repayment on our FCC debt.

As of December 31, 2003, we had $236.0 million in cash and cash equivalents, as compared to $61.7 million at December 31, 2002. Cash provided by operating activities was $109.6 million during the year ended December 31, 2003 as a result of our net income of $20.6 million and $69.2 million of non-cash charges consisting primarily of depreciation and amortization, deferred expenses, accretion of interest and non-cash

Table of Contents

Index to Financial Statements

compensation, and $19.8 million of cash provided by changes in working capital. Cash used in investing activities was $137.3 million during the year ended December 31, 2003, primarily relating to capital expenditures associated with increasing the capacity of our network. Cash provided by financing activities was $202.0 million during the year ended December 31, 2003, primarily relating to the net proceeds from the sale of our senior notes of $144.5 million and the sale of our Series D preferred stock of $65.5 million.

As of December 31, 2002, we had $61.7 million in cash and cash equivalents, as compared to $42.7 million in cash and cash equivalents at December 31, 2001. Cash used in operating activities was $64.5 million during the year ended December 31, 2002 as a result of our net income of $139.1 million, $37.5 million of cash provided by changes in working capital and $37.9 million of non-cash charges consisting primarily of depreciation and amortization, deferred income taxes, accretion of interest, and non-cash compensation, offset by a $279.0 million gain resulting from our sale of spectrum, the proceeds of which are included in investing cash flows. Cash used by investing activities was $73.5 million during the year ending December 31, 2002, related to capital expenditures associated with our network build-out, offset by $141.2 million of proceeds on our sale of spectrum. Cash provided by financing activities was $157.1 million during the year ended December 31, 2002, primarily relating to proceeds from the sale of our preferred stock.

Cash used in operating activities was $32.4 million during the year ended December 31, 2001 as a result of our net loss of $45.2 million and $0.8 million of cash used in changes in working capital, offset by $13.6 million consisting of loss on extinguishment of debt, depreciation and amortization, accretion of interest and non-cash compensation and other expense. Cash provided by investing activities was $24.2 million during the year ending December 31, 2001, primarily relating to an advance associated with our sale of spectrum that ultimately closed in 2002, offset by capital expenditures associated with our network build-out. Cash provided by financing activities was $41.7 million during the year ended December 31, 2001, primarily relating to proceeds from the sale of our preferred stock.

Contractual Obligations and Commercial Commitments

The following table provides aggregate information about our contractual obligations as of December 31, 2003. See note 8 to our consolidated financial statements included elsewhere in this prospectus.

	Payments Due by Period				
	Total	**Less Than 1 Year**	**1-3 Years**	**3-5 Years**	**More Than 5 Years**
Contractual Obligations			**(In thousands)**		
Long-term debt, including current portion	$ 200,588	$ 13,362	$ 29,453	$ 4,252	$ 153,521
Interest paid in cash	136,035	19,092	35,455	32,791	48,697
Operating leases	172,885	29,337	58,220	39,083	46,245
Firm purchase commitments	22,139	13,622	8,517		
Total cash contractual obligations	$ 531,647	$ 75,413	$ 131,645	$ 76,126	$ 248,463

Inflation

We believe that inflation has not affected our operations materially.

Qualitative and Quantitative Disclosures About Market Risk

Market risk is the potential loss arising from adverse changes in market prices and rates, including interest rates. We do not enter into derivatives or other financial instruments for trading, speculative or hedging purposes. Our outstanding indebtedness bears interest at fixed rates.

Effect of New Accounting Standards

In July 2001, the FASB issued Statement of Financial Accounting Standards, or SFAS, No. 143, Accounting for Asset Retirement Obligations. This statement provides accounting and reporting standards for

Table of Contents

Index to Financial Statements

costs associated with the retirement of long-lived assets. This statement requires entities to record 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.

We are subject to asset retirement obligations associated with our cell site operating leases, which are subject to the provisions of SFAS No. 143. Cell site lease agreements may contain clauses requiring restoration of the leased site at the end of the lease term, creating an asset retirement obligation. Landlords may choose not to exercise these rights as cell sites are considered useful improvements. In addition to cell site operating leases, we have leases related to switch site, retail, and administrative locations subject to the provisions of SFAS No. 143. We adopted SFAS No. 143 on January 1, 2003.

In November 2002, the EITF of the FASB reached consensus on EITF No. 00-21, Accounting for Revenue Arrangements with Multiple Deliverables. This consensus requires that revenue arrangements with multiple deliverables be divided into separate units of accounting if the deliverables in the arrangement meet specific criteria. In addition, arrangement consideration must be allocated among the separate units of accounting based on their relative fair values, with certain limitations. The sale of wireless service with an accompanying handset constitutes a revenue arrangement with multiple deliverables. We adopted the provisions of this consensus for revenue arrangements entered into beginning after July 1, 2003. We have elected to apply the accounting provisions of EITF 00-21 on a prospective basis beginning July 1, 2003. As a result, we allocate amounts charged to customers between the sale of handsets and the sale of wireless telecommunication services on a relative fair value basis. In most cases, this results in all amounts collected from the customer upon activation of the handset being allocated to the sale of the handset. As a result of this treatment, activation fees included in the consideration at the time of sale are recorded as handset revenue. Prior to the adoption of EITF 00-21, we had deferred activation fee revenue and amortized these revenues over the average life of our customers. The existing deferred revenue at July 1, 2003 continues to be amortized.

In March 2004, the EITF reached consensus on EITF Issue 03-6, Participating Securities and the Two-Class Method under FASB Statement No. 128, which requires, among other items, the use of the two-class method for calculating earnings per share when participating convertible securities exist. The consensus is effective for fiscal periods beginning after March 31, 2004 and requires restatement of prior periods if the two-class method has not been used. Our accounting policy, under FASB Statement No. 128, Earnings per Share, was to calculate earnings per share under both the two-class and if-converted method and report earnings per share on the method that was most dilutive. The adoption of EITF 03-06 will not have an effect on our financial statements as the two-class method is currently being followed.

Reconciliation of Non-GAAP Financial Measures

We utilize certain financial measures that are not calculated in accordance with GAAP to assess our financial performance. A non-GAAP financial measure is defined as a numerical measure of a company s financial performance that (i) excludes amounts, or is subject to adjustments that have the effect of excluding amounts, that are included in the comparable measure calculated and presented in accordance with GAAP in the statement of operations or statement of cash flows; or (ii) includes amounts, or is subject to adjustments that have the effect of including amounts, that are excluded from the comparable measure so calculated and presented.

Adjusted earnings before interest, taxes, depreciation and amortization or adjusted EBITDA, average revenue per user, or ARPU, and cost per gross addition, or CPGA, are non-GAAP financial measures utilized by our management to judge our ability to meet our liquidity requirements and to evaluate our operating performance. We believe these measures are important in understanding the performance of our operations from period to period, and although every company in the wireless industry does not define each of these measures in precisely the same way, we believe that these measures (which are common in the wireless industry) facilitate

Table of Contents

Index to Financial Statements

key liquidity and operating performance comparisons with other companies in the wireless industry. The following tables reconcile our non-GAAP financial measures with our financial statements presented in accordance with GAAP.

We have presented adjusted EBITDA because this financial measure, in combination with other GAAP and non-GAAP financial measures, is an integral part of the internal reporting system utilized by management to facilitate evaluation of our ability to meet future debt service, capital expenditure and working capital requirements and fund future growth. Adjusted EBITDA is a supplement to GAAP financial information and should not be construed as an alternative to, or more meaningful than, cash flows from operating activities, as determined in accordance with GAAP. The following table reconciles adjusted EBITDA to net cash provided by (used in) operating activities.

Adjusted EBITDA

	Year Ended December 31,			Three Months Ended March 31,	
	2001	**2002**	**2003**	**2003**	**2004**
			(In thousands)		
Net cash provided by (used in) operating activities	$ (32,401)	$ (64,523)	$ 109,618	$ (4,826)	$ 24,368
Interest expense, net of interest income	8,445	5,841	10,193	1,615	4,956
Bad debt expense		(381)	(991)	(749)	(433)
Accretion of asset retirement obligation			(50)	(25)	(79)
Non-cash interest	(3,882)	(3,028)	(3,090)	(784)	(688)
Deferred rents	(949)	(1,853)	(1,160)	(414)	(435)
Cost of abandoned cell sites			(824)	(477)	(183)
Non-deferred tax		8,993	1,643		
Working capital changes	824	(37,501)	(19,832)	16,870	11,620
Adjusted EBITDA	$ (27,963)	$ (92,452)	$ 95,507	$ 11,210	$ 39,126

We believe ARPU is a useful measure to evaluate our per-customer service revenue realization and to assist in forecasting our future service revenues. ARPU is calculated exclusive of activation revenues, as these amounts are a component of our costs of acquiring new customers and are included in our calculation of CPGA. ARPU is also calculated exclusive of E-911 charges, as these are generally pass through charges that we collect from our customers and remit to the appropriate government agencies.

Table of Contents

Index to Financial Statements

Average number of customers for any measurement period is determined by dividing (a) the sum of the average monthly number of customers for the measurement period by (b) the number of months in such period. Average monthly number of customers for any month represents the sum of the number of customers on the first day of the month and the last day of the month divided by two. The following table shows the calculation of ARPU for the periods indicated:

Average Revenue per User (ARPU)

	Year Ended December 31,		Three Months Ended March 31,	
	2002	**2003**	**2003**	**2004**
	(In thousands, except average number of customers and ARPU)			
Service revenues	$ 102,137	$ 370,920	$ 75,999	$ 132,921
Less: Activation revenues	(3,018)	(14,410)	(1,860)	(3,186)
E-911 charges		(5,823)	(1,166)	(2,076)
Net service revenues	99,119	350,687	72,973	127,659
Divided by: Average number of customers	210,881	775,605	615,876	1,063,815
ARPU	$ 39.17	$ 37.68	$ 39.50	$ 40.00

We utilize CPGA to assess the efficiency of our distribution strategy, validate the initial capital invested in our customers and determine the number of months to recover our customer acquisition costs. This measure also provides a gauge to compare our average acquisition costs per new customer to those of other wireless communications providers. Activation revenues and equipment revenues related to new customers are deducted from selling costs in this calculation as they represent amounts paid by customers at the time their service is activated that reduce our acquisition cost of those customers. Additionally, equipment costs associated with existing customers, net of related revenues, are excluded as this measure is intended to reflect only the acquisition costs related to new customers. The following table shows the calculation of CPGA for the periods indicated:

Cost per Gross Addition (CPGA)

	Year Ended December 31,		Three Months Ended March 31,	
	2002	**2003**	**2003**	**2004**
	(In thousands, except gross customer			

		additions and CPGA)		
Selling expenses	$ 26,526	$ 44,076	$ 9,879	$ 12,214
Less: Activation revenues	(3,018)	(14,410)	(1,860)	(3,186)
Less: Equipment revenues	(23,458)	(88,562)	(23,399)	(40,077)
Plus: Equipment revenue not associated with new customers	578	17,150	1,035	16,729
Plus: Cost of equipment	100,651	155,084	44,213	64,047
Less: Equipment costs not associated with new customers	(2,050)	(24,030)	(2,541)	(21,201)
Gross addition expenses	99,229	89,308	27,327	28,526
Divided by: Gross customer additions	626,050	894,348	260,320	294,886
CPGA	$ 158.50	$ 99.86	$ 104.97	$ 96.74

Table of Contents

Index to Financial Statements

BUSINESS

MetroPCS

We are among the fastest growing wireless communications providers in the United States, measured by annual percentage growth in customers and revenue. We offer wireless voice and data services on a no-contract, flat rate, unlimited usage basis in the San Francisco, Miami, Atlanta and Sacramento metropolitan areas, which include a total population of 22.6 million people. We launched service in all of these areas in the first quarter of 2002, except for San Francisco, which we launched in September 2002. We recently acquired four additional licenses for areas in northern California that have a total population of 1.2 million people. We are in the process of planning network deployment and have not begun to provide service in these areas. We reported positive net income and adjusted EBITDA after four quarters of operations and one million customers after eight quarters of operations. As of March 31, 2004, we had approximately 1.2 million customers. We believe that we reached these growth and profitability milestones significantly faster than any other U.S. wireless carrier and that our no-contract, flat rate, unlimited usage service offering will allow us to continue to penetrate our existing markets and further drive our growth and profitability. In addition, we believe our services can be successfully introduced in new markets, and we continue to assess attractive expansion opportunities.

We provide wireless voice and data services to the mass market, which we believe is underserved by traditional wireless carriers. We operate principally through two subsidiaries and hold PCS licenses in 15 subsidiaries. Our service, branded under the metroPCS name, allows our customers to place unlimited wireless calls within a local calling area and to receive unlimited calls from any area for a simple and affordable flat monthly rate plan of $35. For an additional $5 per month, our customers may place unlimited long distance calls from within a local calling area to any number in the continental United States. For additional fees, we also provide caller ID, voicemail, text messaging, camera functions, downloads of ringtones, games and content applications, international long distance and other value-added services. Our calling plans differentiate us from the more complex plans and long-term contracts required by other wireless carriers. Our customers pay for our service in advance, eliminating any customer credit exposure, and we do not require a long-term service contract. Our customers currently average approximately 1,800 minutes of use per month, compared to approximately 675 minutes per month for customers of traditional wireless carriers. We believe that average monthly usage by our customers also exceeds the average monthly usage for typical wireline customers. Average usage by our customers indicates that a majority of our customers use us as their primary telecommunications service provider, and our customer survey results indicate that approximately 35% of our customers use us as their sole telecommunications service provider.

Competitive Strengths

We believe our business has many competitive strengths that distinguish us from other wireless carriers and will allow us to successfully execute our business strategy, including:

Our Flat Rate. We believe our service offering that provides unlimited usage from within a local calling area represents a compelling value proposition for our customers that differs substantially from the offerings of traditional wireless and wireline carriers. Our service is designed to provide mobile functionality while eliminating the gap between traditional wireless and wireline pricing, which we believe stimulates usage of our wireless service and will contribute to driving wireless adoption in our markets to levels comparable to the adoption rates currently experienced in Europe. We also believe that our ability to capture approximately 1.2 million customers to date demonstrates the substantial demand for our service offering.

Our Focus on Densely Populated Markets. Our current service areas include four of the 25 most populous metropolitan areas in the United States: San Francisco, Miami, Atlanta and Sacramento. We believe the high relative population density of our market clusters results in increased efficiencies in network deployment, operating costs and product distribution. As of March 31, 2004, our markets had an average population density of

Table of Contents

Index to Financial Statements

335 POPs per square mile, over four times the national average. In addition, the population of our markets is growing at an average of 1.5 times faster than the national average and the average household income in our markets is $5,000 above the national average according to the Paul Kagan Associates, Inc. Wireless Telecom Atlas & Databook 2002. Based on these statistics, we believe our market profile is the most attractive of any U.S. wireless carrier. We believe significant opportunities exist to expand into other markets with similar characteristics.

Our Cost Leadership Position. We believe our operating strategy, network design, population density and spectrum position have enabled us to become the lowest cost provider of wireless services in the United States. We also believe our rapidly increasing scale will allow us to continue to drive our per customer operating costs down in the future. For the three months ended March 31, 2004, our cost per gross addition, or CPGA, was $97 compared to an average of $345 for our three largest national competitors. In addition, our operating costs per customer are substantially below the service costs of our national competitors. We believe that our industry leading cost position provides us with a sustainable competitive advantage in our markets.

Our State-of-the-Art CDMA 1XRTT Network. We have deployed a 100% code division multiple access radio transmission technology, or CDMA 1XRTT, network in each of our markets that is designed specifically to provide the capacity necessary to satisfy the usage requirements of our customers. CDMA 1XRTT technology provides substantially more voice and data capacity than other commonly deployed wireless technologies and provides us with a network capacity advantage in our markets. Our CDMA 1XRTT network, which provides the most efficient use of spectrum, currently allows us to rapidly and cost-effectively add network capacity without adding incremental cell sites. We believe that the combination of our network technology, network design and spectrum depth will allow us to efficiently serve the high usage demands of our rapidly growing customer base into the future.

Our Deep Spectrum Portfolio. We currently hold 30 MHz of spectrum in 13 of our 18 license areas even though our business plan generally requires only 20 MHz of spectrum in our major markets. This excess spectrum provides us with the flexibility to swap or sell 10 MHz or more of spectrum in selected markets to support future expansion or investment initiatives without materially impacting our business plan. For example, in February 2002, we completed our only spectrum sale to date, selling 10 MHz of excess spectrum in our Atlanta market for $290.0 million.

Business Strategy

We believe the following components of our business strategy will allow us to continue our rapid, profitable growth:

Continue to Target Underserved Customer Segments in Our Markets. We believe there is substantial demand in the United States for our affordable wireless services, as demonstrated by the fact that we have been among the leaders of the U.S. wireless industry in incremental market penetration in every quarter since we launched operations. Historically, approximately 40% of our gross customer additions have been first time wireless customers, while the remainder have switched from traditional wireless carriers. We believe our rapid adoption rates and customer mix demonstrate that our service is expanding the overall size of the wireless market as well as better meeting the needs of many existing wireless users.

Offer Affordable, Fixed Price Calling Plans Without Long-Term Service Contracts. We believe that our fixed price, unlimited service represents an attractive offering to a large segment of the population. Our service results in average per minute usage costs to our customers that are significantly lower than the average per minute rates of other wireless operators. We believe that many prospective customers refrain from subscribing to or extensively using traditional wireless communications services due to high prices or unattractive and confusing calling plans, and that our simple, cost- effective service will allow us to attract many of these customers and continue our rapid growth.

[Table of Contents](#)

[Index to Financial Statements](#)

Maintain Our Position as the Lowest Cost Wireless Telephone Services Provider in the United States. We are the lowest cost provider of wireless services in the United States, which allows us to offer our services at affordable prices while maintaining cash profit margins per customer that are among the highest in the industry. Our operating strategy, network design, spectrum portfolio and rapidly increasing scale, together with the population density of our markets, should allow us to continue to maintain our cost leadership position and further reduce our per customer operating costs in the future.

Expand into Attractive Markets Through Acquisitions and Spectrum Swaps. We believe the success of our business model can be replicated in markets outside of our existing footprint. We expect that attractive expansion opportunities will become available. We plan to target expansion markets that complement our existing footprint or can be operated as a stand alone cluster with growth and profitability characteristics similar to our existing markets. Part of the proceeds from this offering may be used to fund expansion into new markets, and we may also choose to swap a portion of our existing excess spectrum for spectrum in new markets.

Company History

We were formed in 1994 for the purpose of acquiring and operating PCS licenses as a small business under the FCC s designated entity rules. In 1996, we participated in the FCC s C-Block auctions of PCS spectrum licenses. Although the auctions in which we were declared the high bidder concluded in May 1996, the FCC did not issue the licenses to us until January 1997, by which time the market value of PCS licenses had declined dramatically due to, among other things, the FCC s intervening auction of licenses in the D-, E- and F-Blocks. In connection with the C-Block auction, each of our license holding subsidiaries had executed a separate promissory note payable to the FCC in an amount equal to the purchase price of that subsidiary s FCC license. As a result, we were unable to obtain the financing necessary to service our debt to the FCC and build our networks.

In October 1997, after repeated efforts to obtain a commercially viable restructuring of our debt to the FCC, the subsidiaries in which we hold our FCC licenses each filed voluntary petitions for relief under Chapter 11 of the United States Bankruptcy Code. In January 1998, we filed our own voluntary Chapter 11 petition, joining our license subsidiaries bankruptcy proceedings.

As a result of proceedings commenced in the bankruptcy court, it was determined that, after crediting the $106.0 million we had paid to the FCC as down payments for our licenses, the total amount owed by us to the FCC was $60.0 million. In September 1998, the bankruptcy court confirmed our plan of reorganization and we emerged from bankruptcy in October 1998.

On July 13, 2004, a wholly owned subsidiary of MetroPCS Communications, Inc. was merged with MetroPCS, Inc. such that MetroPCS, Inc. became a wholly owned subsidiary of MetroPCS Communications, Inc. and all of the holders of capital stock of MetroPCS, Inc. became holders of capital stock of MetroPCS Communications, Inc.

Products and Services

Voice Services. We provide affordable, reliable and high-quality wireless communications services, which consists of two primary pricing plans. Our basic $35 per month service offering allows our customers to place unlimited calls within our calling area and to receive unlimited calls from anywhere in the world. In November 2003, we began to market a $40 per month service offering in all of our markets that allows our customers to place unlimited calls from our coverage area to anywhere in the continental United States, and to receive unlimited calls from anywhere in the world. Both plans are paid for in advance and do not require a long-term service contract. Our calling areas extend in most cases beyond the boundaries of our actual license footprint. For example, customers in our San Francisco and Sacramento markets may place unlimited calls to areas throughout northern California for which our wireline competitors generally would impose toll charges.

Table of Contents

Index to Financial Statements

Customers on our basic $35 per month plan desiring long distance and international calling service may choose a pre-paid option, allowing them to place calls anywhere in the world at favorable rates. Customers on our $40 per month plan who desire international calling service may also choose this pre-paid option for international calling service. Customers who travel outside of their coverage area may roam onto other wireless networks by providing the carrier on those networks with a credit card number, thereby allowing that carrier to bill them directly for their roaming charges. We incur no costs, nor do we receive any revenues, when our customers utilize these third-party roaming services.

Data Services. Our data services include:

- services provided through the binary runtime environment for wireless, or BREW, development platform, including ringtones, games and content applications;
- text messaging services, which allow the customer to send and receive alphanumeric messages, which can be received, stored and displayed on the handset on demand; and
- multimedia messaging services, which allow the customer to send and receive messages containing photographs.

Custom Calling Features. We offer other custom calling features, including caller ID, call waiting, three-way calling, distinctive ring tones and voicemail.

Advanced Handsets. We sell a variety of handsets manufactured primarily by Nokia, Kyocera, Audiovox, LG and Sony Ericsson for use on our network, including models that provide color screens, camera phones and other features to facilitate digital data transmission. All of the handsets we offer are CDMA 1XRTT compliant.

We continue to evaluate new product and service offerings in order to enhance customer satisfaction and attract new customers. For example, in March 2004, we launched, on a trial basis, a limited usage offering in which customers purchase 250 minutes of local and long distance usage per month for $25 instead of our traditional unlimited usage offerings. We believe that this offering will help us to retain existing customers and attract new customers who do not require unlimited usage or who are unwilling or unable to pay for our traditional unlimited usage plans.

FCC Licenses

Fourteen of our wholly-owned license subsidiaries each hold one 30 MHz PCS license, with the exception of one subsidiary that holds a license for 20 MHz as a result of the February 2002 sale of 10 MHz of spectrum in our Atlanta market. Six licenses permit wireless operations in the greater San Francisco and Sacramento metropolitan clusters, five permit wireless operations in the greater Miami metropolitan cluster and three permit wireless operations in the Atlanta metropolitan cluster. The licenses have an initial term of ten years after the initial grant date in January 1997, and, subject to applicable conditions, may be renewed. Each FCC license is essential to our ability to operate and conduct our business in the area covered by that license. See Risk Factors Risks Related to Our Business and Legislation and Government Regulations.

On April 15, 2004, we acquired, through a wholly-owned subsidiary, four additional 15 MHz licenses for areas in northern California (Merced, Modesto, Eureka and Redding), with a total population of approximately 1.2 million people. As with our other PCS licenses, these licenses have an initial term of ten years after the initial grant date in January 1997 and, subject to applicable conditions, may be renewed. We paid an aggregate cash purchase price of $10.9 million for this acquisition. We are in the process of planning network deployment and have not begun to provide service in these areas.

On July 8, 2004, we entered into an agreement with NextWave Telecom, Inc. and certain of its affiliates to acquire two 10 MHz PCS licenses for the Tampa-St. Petersburg-Clearwater, Florida area, and the Sarasota-Bradenton, Florida area. These areas have a total population of approximately 3.3 million people. These licenses

Table of Contents

Index to Financial Statements

have an initial term of ten years after the initial grant date in January 1997, and subject to applicable conditions, may be renewed. We agreed to pay a cash purchase price of $43.5 million for this acquisition. Consummation of this acquisition is subject to satisfaction of several conditions, including approval by the FCC and approval by the bankruptcy court in which NextWave s Chapter 11 bankruptcy cases are pending.

Markets

Our FCC licenses cover four clusters encompassing the greater metropolitan areas of San Francisco, Miami, Atlanta and Sacramento. We believe our markets are particularly attractive because of their high population densities, high historical and projected population growth rates, favorable business climates and long commuting times relative to national averages. The population of the markets we currently serve is growing and is expected to continue to grow at an average of 1.5 times faster than the national average for the period of 2001 through 2006.

The following table sets forth information regarding our licensed markets as of March 31, 2004[1]:

	2002 POPs(2)	MHz in Market	2001-2006 Annual Population Growth Rate(2)	Population Density(3)
	(In thousands)			
San Francisco Cluster:				
San Francisco Oakland San Jose	7,375.9	30	1.05%	544
Salinas Monterey	410.1	30	1.03%	124
Subtotals/Average	7,786.0		1.05%	462
Miami Cluster:				
Miami Fort Lauderdale	4,073.0	30	1.62%	970
West Palm Beach	1,213.6	30	2.02%	439
Fort Myers	654.7	30	2.04%	191
Fort Pierce Vero Beach	447.9	30	1.86%	274
Naples	268.1	30	3.01%	134
Subtotals/Average	6,657.3		1.81%	475
Atlanta Cluster:				
Atlanta	4,612.8	20	2.31%	420
Gainesville	259.4	30	2.53%	159
Athens	214.7	30	1.85%	156
Subtotals/Average	5,086.9		2.30%	364
Sacramento Cluster:				
Sacramento	2,059.0	30	1.45%	129
Stockton	619.6	30	1.31%	254
Chico Oroville	233.4	30	0.96%	79
Yuba City Marysville	141.9	30	1.09%	114
Subtotals/Average	3,053.9		1.37%	135

Totals/Average	22,584.1	1.60%	335
U.S. Totals/Average	291,248.0	1.06%	82

(1) The data in the above table does not include the 15 MHz licenses we recently acquired for four areas in northern California (Merced, Modesto, Eureka and Redding), with a total population of 1.2 million people. We are in the process of planning network deployment and have not begun to provide service in these areas.
(2) Source: Paul Kagan Associates, Inc. Wireless Telecom Atlas & Databook 2002.
(3) Number of POPs per square mile as of December 31, 2001.

Distribution and Marketing

We offer our wireless services under the metroPCS brand both through indirect independent retail outlets and directly to our customers through company-operated retail stores. At May 31, 2004, our distribution outlets

[Table of Contents](#)

[Index to Financial Statements](#)

included approximately 1,370 indirect retailers and 50 MetroPCS retail locations. Our indirect distribution outlets include a range of local, regional and national mass market retailers and specialty stores. For 2003, approximately 76% of our gross customer additions were added through our indirect distribution outlets. We believe our mix of indirect and direct distribution provides us with the ability to reach the largest number of potential customers in our markets at a low relative cost. We plan to increase our number of indirect distribution outlets and company-operated stores.

We engage in local advertising in order to develop our brand and support our indirect and direct distribution channels. We primarily advertise through radio, cable and local print media. In addition, we believe we have benefited from a significant number of word-of-mouth customer referrals.

Customer Care, Billing and Support Systems

Our strategy of establishing and maintaining our leadership position as a low cost provider, while ensuring high customer satisfaction levels, has led us to pursue several outsourcing solutions to efficiently deliver quality service and support to our customers. We outsource some or all of the following back office and support functions to nationally recognized third-party providers:

Customer Care. Our call centers are staffed with professional and bilingual customer service personnel, who are available to assist our customers 24 hours a day, 365 days a year. We also provide automated voice response services to assist our customers with routine information requests. We believe providing quality customer service is an important element in overall customer satisfaction.

Billing. We utilize a third-party billing platform that enables us to bill and monitor payments from our customers. We offer our customers the option of receiving web-based and short messaging service-based bills as well as traditional paper bills through the mail. We believe our current billing arrangement will provide us with sufficient scale as our business continues to grow.

Payment Processing. Customers may pay by credit card, debit card, check or cash. We have over 1,000 locations where our customers who chose to pay cash for their monthly service can make their payments. Many of these locations also serve as distribution points for our services and are therefore conveniently located for our customers to make payments. In addition, customers may make payments at any of the more than 3,000 Western Union locations throughout our markets.

Logistics. We outsource the logistics associated with the shipping of handsets to our distribution channels.

Network Operations

We believe we were the first U.S. wireless carrier to have 100% of our customers on a CDMA 1XRTT network. We began to build out our network in 2001, shortly after other CDMA carriers began to upgrade their networks to 1XRTT. As a result, we were able to deploy our network with third generation capabilities at a fraction of the cost that was incurred by other carriers to deploy second generation CDMA networks. All of our handsets are CDMA 1XRTT compliant and as a result we receive the full capacity and quality benefits that CDMA 1XRTT provides across our entire network and customer base.

As of March 31, 2004, our network consisted of seven switches at five switching centers and 1,003 cell sites in operation. A switching center serves several purposes, including routing calls, managing call handoffs, managing access to the public telephone network and providing access to voicemail and other value-added services. Currently, all of our cell sites are co-located, meaning our equipment is located on leased facilities that are owned by third parties who retain the right to lease these facilities to other carriers as well. We utilize our switching centers capabilities for around-the-clock monitoring of our network base stations and switches.

Our switches connect to the public telephone network through fiber rings, which facilitate the first leg of origination and termination of traffic between our equipment and both local exchange and long distance carriers. We have negotiated interconnection agreements with our local exchange carriers.

Table of Contents

Index to Financial Statements

We use third-party providers for long distance services and for backhaul services. Backhaul services are the telecommunications services that other carriers provide to carry our traffic from our cell sites to our switching facilities.

Network Technology

Wireless digital signal transmission is accomplished through the use of various forms of frequency management technology or air interface protocols. The FCC has not mandated a universal air interface protocol for wireless PCS systems. Rather, wireless PCS systems operate under one of three principal air interface protocols: code division multiple access, or CDMA; time division multiple access, or TDMA; or global system for mobile communications, or GSM. TDMA and GSM communications are both time division multiple access systems but are incompatible with each other. CDMA is incompatible with both GSM and TDMA systems. Accordingly, a customer of a system that utilizes CDMA technology is unable to use a CDMA handset when traveling in an area not served by a CDMA-based wireless carrier, unless the customer carries a dual- band/dual-mode handset that permits the customer to use the analog cellular system in that area. The same issue applies to users of TDMA or GSM systems.

Our decision to use CDMA was based on several key advantages relative to other digital protocols, including the following:

Higher network capacity. Cellular technology capitalizes on frequency reuse per cell site. CDMA has a reuse of one, meaning that every frequency channel can be used in each cell. TDMA and GSM have a frequency reuse of greater than one, meaning that every frequency channel cannot be reused in a cell. Therefore, CDMA uses the entire frequency in each cell rather than using only a fraction of such frequency as is typically the case with TDMA and GSM technologies. We believe, based on studies by CDMA handset manufacturers, that our implementation of CDMA digital technology will eventually provide system capacity that is approximately seven to ten times greater than that of analog technology and approximately three times greater than that of TDMA and GSM systems, resulting in significant operating and cost efficiencies. Additionally, we believe that CDMA technology provides network capacity and call quality that are superior to that of other wireless technologies.

Longer handset battery life. TDMA and GSM system power control is less stringent by design than CDMA, whereas the power regulating nature of CDMA establishes a communication link with a customer handset at the lowest possible power level suitable for high-quality voice transmission. As a result, while a digital handset using any of the three technologies has a substantially longer battery life than an analog cellular handset, battery life in CDMA handsets can be proportionately extended to provide longer periods between recharges.

Fewer dropped calls. CDMA systems transfer calls throughout the CDMA network using a technique referred to as a soft hand-off, which connects a mobile customer s call with a new base station while maintaining a connection with the base station currently in use. CDMA networks monitor the quality of the transmission received by multiple base stations simultaneously to select a better transmission path and to ensure that the network does not disconnect the call in one cell unless replaced by a stronger signal from another base station. Analog, TDMA and GSM networks use a hard hand-off and disconnect the call from the current base station as it connects with a new one without any simultaneous connection to both base stations. This characteristic of CDMA results in fewer dropped calls compared to other technologies.

Simplified frequency planning. Frequency planning is the process by which wireless service providers analyze and test alternative patterns of frequency use within their systems to minimize interference and maximize capacity. Currently, TDMA and GSM service providers spend considerable time and money on frequency planning because of the need to reuse frequencies to maximize capacity throughout a network. With

CDMA technology, however, the same subset of allocated frequencies can be reused in every cell, substantially reducing the need for costly frequency planning.

Table of Contents

Index to Financial Statements

Efficient migration path. CDMA 1XRTT technology can be further upgraded, easily and cost effectively, for enhanced voice and data capabilities. The relatively low incremental investment in each step along the migration path is an advantage of this technology. Additional steps can be taken as demand for more robust data services or need for additional capacity develops at relatively modest capital investment levels. Handset compatibility is a primary objective of CDMA 2000, 1XRTT, IS-95A and IS-95B. Therefore, our 1XRTT system supports IS-95A, IS-95B and 1XRTT handsets.

Privacy and security. CDMA uses coding to isolate users, whereas TDMA and GSM use time slots to isolate the users. Furthermore, CDMA uses a very long code extending over multiple days which requires accurate time and code phase knowledge to decode. Therefore, CDMA offers increased privacy and security.

Competition

We compete directly in each of our markets with other wireless providers and with wireline providers as a mobile alternative to traditional landline service. We believe that competition for subscribers among wireless communications providers is based primarily upon price, service area, services and features offered, call quality and customer service. Many of our competitors have substantially greater resources and larger market share than we have, which may affect our ability to compete successfully. Additionally, many of our competitors offer larger coverage areas or nationwide calling plans that do not require additional charges for roaming, and the competitive pressures of the wireless communications industry have caused other carriers to offer service plans with increasingly large bundles of minutes of use at increasingly low prices. These competitive plans could adversely affect our ability to maintain our pricing, market penetration and customer retention. Furthermore, the FCC may pursue policies designed to make available additional spectrum for the provision of wireless services in each of our markets, which may increase the number of wireless competitors we face and enhance the ability of our wireless competitors to offer additional plans and services.

We also compete with companies that use other communications technologies, including paging and digital two-way paging, enhanced specialized mobile radio and domestic and global mobile satellite service. These technologies may have advantages over the technology we use and may ultimately be more attractive to customers. We may compete in the future with companies that offer new technologies and market other services that we do not offer. Some of our competitors do or may offer these other services together with their wireless communications service, which may make their services more attractive to customers. In addition, energy companies, utility companies and cable operators are expanding their services to offer communications services.

Employees

As of March 31, 2004, we had 859 employees. We believe that our relationship with our employees is good. None of our employees is represented by an employee union.

Properties

We maintain our executive offices in Dallas, Texas, and regional offices in Alameda, California; Sunrise, Florida; Norcross, Georgia; and Folsom, California. We also operate 50 retail stores throughout our markets. All of our facilities are leased.

Legal Proceedings

From time to time, we are involved in litigation that we consider to be in the normal course of business. We are not party to any pending legal proceedings that we believe would, individually or in the aggregate, have a material adverse effect on our financial condition or results of operations.

Table of Contents

Index to Financial Statements

LEGISLATION AND GOVERNMENT REGULATIONS

The wireless communications industry is subject to extensive governmental regulation on the federal level and to varying degrees on the state level. The enactment of the Telecommunications Act of 1996 has had an effect on many aspects of this regulation. In addition, this regulation currently is the subject of administrative rulemakings and judicial proceedings that are significant to us.

Federal Regulation

The licensing, construction, modification, operation, ownership, sale and interconnection arrangements of wireless communications systems are subject to regulations and policies adopted by the FCC under the Communications Act of 1934, as amended, or the Communications Act. These regulations and policies govern, among other things, applications for licenses to construct and operate wireless communications systems, ownership of wireless licenses and the transfer of control or assignment of such licenses, and the ongoing technical and operational requirements under which wireless licensees must operate.

General Licensing Requirements

The FCC awarded PCS licenses for protected geographic service areas called major trading areas, or MTAs, and basic trading areas, or BTAs, which are defined by Rand McNally & Company. Under this scheme, the United States and its possessions and territories are divided into 493 BTAs, all of which are included within 51 MTAs. The FCC has allocated 120 MHz of radio spectrum in the 1.9 GHz band for licensed broadband PCS. The FCC divided the 120 MHz of spectrum into two 30 MHz blocks, known as the A and B blocks, licensed for each of the 51 MTAs, one 30 MHz block, known as the C block, licensed for each of the 493 BTAs, and three 10 MHz blocks, known as the D, E and F blocks, licensed for each of the 493 BTAs, for a total of more than 2,000 licenses. Each PCS license authorizes operation on one of six frequency blocks allocated for broadband PCS.

The FCC has adopted construction benchmarks for PCS licenses. All 30 MHz broadband PCS licensees must construct facilities that offer coverage to one-third of the population of their service area within five years, and two-thirds of the population within ten years, of their initial license grants. All 10 MHz and 15 MHz block licensees must provide service to 25% of the service area within five years of their initial license grants, or make a showing of substantial service. While the FCC has granted limited extensions and waivers of these requirements, licensees that fail to meet the coverage requirements may be subject to forfeiture of the license. We have satisfied the initial five-year construction requirements for all of the PCS licenses we currently hold.

The FCC generally grants PCS licenses for terms of ten years that are renewable upon application to the FCC. Near the conclusion of the license term, we must file applications for renewal of licenses to obtain authority to operate for an additional ten-year term. The FCC may revoke our licenses and may deny our license renewal applications for cause after appropriate notice and hearing. The FCC will award a renewal expectancy to us if we meet specific standards of past performance. If we receive a renewal expectancy, it is very likely that the FCC will renew our existing PCS licenses so that they will not become subject to competing applications. The FCC has not yet issued any renewal expectancies for PCS licensees, and has clarified only the basic requirements and process. To receive a renewal expectancy, we must show that we have provided substantial service during our past license term, and have substantially complied with applicable FCC rules and policies and the Communications Act. The FCC defines substantial service as service which is sound, favorable and substantially above a level of mediocre service that might only minimally warrant renewal. If a licensee does not receive a renewal expectancy, then the FCC will accept competing applications for the license renewal period, subject to a comparative hearing, and the FCC may award the license for the subsequent term to another entity.

The FCC may deny applications for FCC authority, and in extreme cases revoke FCC licenses, if it finds that an entity lacks the requisite character qualifications to be a licensee. In making this determination, the FCC considers whether an applicant or licensee has been the subject of adverse findings in a judicial or administrative proceeding involving felonies, the possession or sale of unlawful drugs, fraud, antitrust violations or unfair

Table of Contents

Index to Financial Statements

competition, employment discrimination, misrepresentations to the FCC or other government agencies, or serious violations of the Communications Act or FCC regulations. We believe there are no activities and no judicial or administrative proceedings in which we are involved that would warrant such a finding by the FCC.

The FCC also regulates a number of other aspects of the wireless business. Federal legislation enacted in 1993 requires the FCC to reduce the disparities in the regulatory treatment of similar mobile services, such as cellular, PCS and enhanced specialized mobile radio, or ESMR, services. Under this regulatory structure, all of our PCS licenses are classified as Commercial Mobile Radio Services, or CMRS, licenses. The FCC regulates CMRS carriers as common carriers, and thus we are subject to many generally applicable common carrier requirements under the Communications Act and FCC rules and regulations. The FCC, however, has exempted cellular and PCS offerings from some typical common carrier regulations, such as tariff and interstate certification filings, thereby allowing us to respond more quickly to our competition in the marketplace. The 1993 federal legislation also preempted state rate and entry regulation.

The FCC permits cellular, broadband PCS, paging and ESMR licensees to offer fixed services on a co-primary basis along with mobile services. This rule may facilitate the provision of wireless local loop service, which involves the use of wireless links to provide local telephone service by CMRS licensees, although the extent of lawful state regulation of such wireless local loop service is undetermined. While we do not presently have a fixed service offering, our network is fully capable of accommodating such a service. We continue to evaluate our service offerings which may include a fixed service plan at some point in the future.

Until April 4, 2005, the FCC requires that a PCS licensee ensure that its operations do not cause interference to incumbent licensees that operate fixed microwave systems within the PCS licensee s license area. In an effort to balance the competing interests of existing microwave users and newly authorized PCS licensees, the FCC adopted a transition plan to relocate such microwave operators to other spectrum blocks and a cost sharing plan so that if the relocation of an incumbent benefits more than one PCS licensee, the benefiting PCS licensees will share the cost of the relocation. The transition and cost sharing plans expire on April 4, 2005, at which time remaining incumbents in the PCS spectrum will be responsible for their costs to relocate to alternate spectrum locations. We have fulfilled all of the relocation obligations (and related payments) we directly incurred in our PCS markets, and we have ongoing obligations of approximately $3.8 million that are payable to other carriers under cost sharing plans related to microwave relocation in our markets. The FCC allows designated entities to pay these shared relocation expenses over the same term as the applicable FCC license for the area. Each of these obligations has a ten-year term, with interest only payments through year six and principal payments commencing in year seven.

Ownership Restrictions

Pursuant to a Report and Order released in December 2001, as of January 1, 2003, the FCC no longer enforces a particular limit on the amount of CMRS spectrum in which an entity may hold an attributable interest. The FCC now engages in a case-by-case review of transactions that would raise concerns similar to those that the CMRS spectrum cap was designed to address. By eliminating a hard cap in favor of the more flexible analysis, we believe the changes adopted by the FCC in the December 2001 Report and Order could further increase the ability of wireless operators to attract capital or to make investments in other wireless operators.

The FCC may prohibit or impose conditions on assignments and transfers of control of licenses. The Communications Act requires prior FCC approval for assignments or transfers of control of any license or construction permit, with limited exceptions. Although we cannot assure you that the FCC will approve or act in a timely fashion upon any future requests for approval of assignments or transfer of control applications that we file, we have no reason to believe that the FCC would not approve or grant such requests or applications in due course. Because an FCC license is necessary to lawfully provide PCS service, if the FCC were to disapprove any such filing our business plans would be adversely affected.

Table of Contents

Index to Financial Statements

The FCC allows broadband PCS licenses and service areas to be partitioned geographically or disaggregated by bandwidth, with each partitioned or disaggregated license covering a smaller service area and/or less spectrum. Any such partitioning or disaggregation is subject to FCC approval, which cannot be guaranteed. In addition, on May 15, 2003, the FCC adopted a Report and Order to facilitate the development of a secondary market for unused or underused wireless spectrum by imposing less restrictive standards for the transfer and lease of spectrum to third parties. The availability of these options provides us with a flexible alternative to obtain additional spectrum or dispose of excess spectrum, subject to FCC approval and applicable FCC conditions. These alternatives also are available as a means for our competitors to obtain additional spectrum or for new competitors to enter our markets.

FCC rules establish specific ownership requirements for PCS licenses obtained in the C and F block auctions, which are known as the entrepreneur s block auctions. Our licenses were obtained in the C block auction and thus are subject to these requirements. For the C block auction in which we acquired our licenses, the FCC s rules permitted entities to exclude the gross revenues and assets of an entity s non-attributable investors in determining eligibility as a designated entity and small business, so long as the licensee employed one of two control group structural options. We elected to meet the 25% control group structural option, which requires that, for the first ten years of the initial license term (which for us will end on January 27, 2007), a licensee have an established group of investors that meet the requirements set forth for the entrepreneur block auctions, hold at least 50.1% of the voting interests of the licensee, have actual and legal control of both the control group and the licensee, and elect or appoint a majority of the licensee s board of directors. In addition, those qualifying investors are required to hold a percentage of the equity: after the first three years of the license term (which for us ended January 27, 2000), the qualifying investors must collectively retain at least 10% of the equity interests in the licensee. The 10% equity interest may be held in the form of options, provided that these options are exercisable at any time, solely at the holder s discretion, at an exercise price less than or equal to the current market valuation of the underlying shares at the time of the short-form auction application filing date or, for options issued later, the date such options were issued. Finally, under the 25% control group structural option, no investor or group of affiliated investors that is not in the control group may hold more that 25% of the licensee s overall equity during the initial license term.

Although the ownership requirements applicable to our FCC licenses will expire on January 27, 2007, or the tenth anniversary of the date on which they were granted by the FCC, it is possible that we will acquire additional FCC licenses in the aftermarket that are subject to similar ownership restrictions. Depending on when such licenses were initially granted by the FCC, in order to be eligible to hold such licenses we could be required to continue to comply with the 25% control group structural option beyond January 27, 2007, unless the FCC has approved a different structural option for us.

Although the FCC terminated future application of its control group requirements in August 2000, allowing licensees to qualify as designated entities by meeting alternative controlling interests rules, the FCC held that existing licensees could continue to qualify under the rules in existence at the time they received their licenses. We met and continue to meet the 25% control group structural option. In order to meet the control group requirements, our certificate of incorporation provides that our Class A common stock, as a class, must constitute 50.1% of the aggregate voting power of all classes and series of our capital stock and elect or appoint a majority of our board of directors. In addition, our bylaws provide for restrictions on transfer relating to shares of our capital stock held by investors that are qualifying investors, and our certificate of incorporation includes redemption rights that allow us to redeem shares of our capital stock, as necessary, in order to ensure our continued compliance with the control group structural option rules for the purposes of C block license requirements.

FCC rules also allowed companies to qualify as a designated entity in the 1996 C Block auction where they met the FCC s definition of a Publicly Traded Corporation with Widely Dispersed Voting Power. To qualify for this alternative structural option, a company had to demonstrate that no person or entity:

owned more than 15% of the company s equity;

49

Table of Contents

Index to Financial Statements

possessed, either directly or indirectly, the power to control the election of more than 15% of the members of the company s board of directors; or

had de facto control over the company.

We intend to request approval from the FCC to adopt this alternative structure without financial penalty after the consummation of this offering. Prior to the consummation of this offering, our certificate of incorporation will be amended to allow us to redeem shares of our capital stock to ensure that we are eligible for this structure.

FCC rules impose specific restrictions on the voluntary assignments or transfers of control of C block licenses. During the first five years of the license term (or until the licensee satisfies the five-year construction benchmark), assignments or transfers of control are permitted, but only to entities that meet specified qualifications, and if the original entity and the assignee or transferee have different entrepreneur or small business qualifications, the assignment or transfer may result in an obligation to make additional payments to the FCC. After the first five years of the initial license term (which for us ended January 27, 2002), voluntary assignments and transfers of control to entities not meeting the eligibility criteria for participation in the entrepreneurs block are permitted; however, if a license is being paid for in installments, as ours are, all unpaid principal and accrued interest on the license must be paid to the FCC as a condition of any assignment or transfer of control to a non-qualifying entity.

The Communications Act includes provisions that authorize the FCC to restrict the level of ownership that foreign nationals or their representatives, a foreign government or its representative or any corporation organized under the laws of a foreign country may have in us. The law permits foreign ownership of as much as 25% of our equity without the need for any action by the FCC. If the FCC determines that it is in the best interest of the general public, the FCC may revoke licenses or require an ownership restructuring in the event that such ownership exceeds the statutory 25% benchmark. The FCC generally permits, however, additional foreign ownership in excess of the statutory 25% benchmark where that interest is to be held by an entity or entities from member countries of the World Trade Organization. For investors from countries that are not members of the World Trade Organization, the FCC will determine whether the home country of the foreign investor extends reciprocal treatment called equivalent competitive opportunities to United States entities. If these opportunities do not exist, the FCC may not permit investment beyond the 25% benchmark. These restrictions could adversely affect our ability to attract additional equity financing. We have no knowledge that any foreign entity directly or indirectly owns a significant percentage of our capital stock.

General Regulatory Obligations

The Communications Act and the FCC s rules impose a number of requirements upon PCS licensees. These requirements, which are summarized below, could increase our costs of doing business.

We are obligated to pay annual regulatory fees and assessments to support the FCC s regulation of the wireless industry, as well as fees necessary to support federal universal service programs, number portability, regional database costs, centralized administration of telephone numbering, telecommunications relay service for the hearing-impaired and application filing fees.

The FCC has adopted requirements for CMRS providers to implement basic and enhanced 911, or E-911, services. These services provide state and local emergency service providers with the ability to better identify and locate callers using wireless services, including callers using special devices for the hearing impaired. Our obligations to implement these services occur in stages, and on a market-by-market basis as emergency service providers request the implementation of E-911 services within their locales. In June 2002, the FCC extended the deadlines for meeting some of these requirements, specifically the Phase II capabilities whereby emergency service providers receive the 911 caller s geographic location, until March 1, 2003 at the earliest (the actual date for implementing this capability in any given locale will be based on the readiness of public safety agencies to participate in E-911 services). We are currently constructing facilities to implement these capabilities in several markets, although we do not currently know whether we will be able to meet all of the requirements imposed by

Table of Contents

Index to Financial Statements

the FCC, whether some additional relief from these regulations will be required, or whether the FCC would grant such relief if we request that it do so. Absent a waiver, failure to comply with the FCC s E-911 requirements could subject us to significant penalties. The extent to which we are required to deploy E-911 services will affect our capital spending obligations. The FCC in 1999 amended its rules to eliminate a requirement that carriers be compensated for E-911 costs and expand the circumstances under which wireless carriers may be required to offer E-911 services. Federal legislation enacted in 1999 may limit our liability for uncompleted 911 calls to a degree commensurate with wireline carriers in our markets.

Federal law also requires PCS carriers to provide law enforcement agencies with capacity to support lawful wiretaps and technical capabilities for wiretaps. Federal law also requires compliance with wiretap-related record-keeping and personnel-related obligations. Maintaining compliance with these wireless 911 and law enforcement wiretap requirements may create additional capital obligations for us to make necessary system upgrades.

Because the availability of telephone numbers is dwindling, the FCC has adopted number pooling rules that govern the way in which telephone numbers generally are allocated. At present, number pooling is only mandatory within the wireline rate centers in which we have drawn numbers and which are located in counties that are included in the top 100 MSAs as defined by the FCC s rules. Our markets are partially or wholly contained within the top 100 MSAs. We have expended capital preparing for number pooling in these markets as well as preparing to support the roaming of pooled numbers into our markets. The FCC also has authorized states to initiate limited numbering administration to supplement federal requirements. Some of the states in which we provide service have been so authorized.

In addition, the FCC has ordered all carriers, including wireless carriers, to adopt a method for providing customers with telephone number portability, or the ability to keep their telephone numbers when they change telecommunications carriers, either wireless to wireless or, in some instances, wireline to wireless, and vice versa. Under these local number portability rules, a CMRS carrier located in one of the top 100 MSAs must have the technology in place to allow its customers to port their telephone numbers when they switch to a new carrier. Outside of the top 100 MSAs, CMRS carriers that receive a request to allow end users to port their telephone numbers must be capable of doing so within six months after receiving the request or within six months of November 24, 2003, whichever is later. In addition, all CMRS carriers have been required since November 24, 2002 to support roaming nationwide for customers with ported or pooled numbers. These number portability requirements are likely to result in added capital expenditures for us to make necessary system changes.

FCC rules provide that all local exchange carriers must enter into mutual compensation arrangements with CMRS carriers for the exchange of local traffic, whereby each carrier compensates the other for local traffic that carrier terminates that originated on the other carrier s network. Local traffic for purposes of the reciprocal compensation arrangement between local exchange carriers and CMRS carriers is defined as intra-MTA traffic, and thus the FCC s reciprocal compensation rules apply to any local traffic originated by a CMRS carrier and terminated by a local exchange carrier within the same MTA and vice versa, even if such traffic is inter-exchange. While these rules provide that local exchange carriers may not charge CMRS carriers for facilities used by CMRS carriers to terminate local exchange carriers traffic, local exchange carriers may charge CMRS carriers for facilities used for transit purposes to carry CMRS carrier traffic to a third carrier. FCC rules provide that incumbent local exchange carriers must exchange local traffic with CMRS carriers at rates based on the FCC s costing rules if the CMRS carrier so requests; such rates are set by state public utility commissions applying the FCC s rules. Some competitive (non-incumbent) local exchange carriers have claimed a right under existing FCC rules to impose unilateral charges on CMRS carriers for the termination of such carriers traffic, based at above-cost rates, and have argued that they have no obligation to negotiate mutual compensation arrangements or to pay CMRS carriers for traffic transmitted indirectly over another carrier s transit facilities. There are petitions for declaratory ruling pending at the FCC that these carriers positions and related practices are contrary to law and relevant FCC precedent. The FCC also is currently considering changes to local exchange carrier-CMRS interconnection and other so-called intercarrier compensation schemes, and the outcome of the proceeding may affect the manner in which CMRS carriers are charged or compensated for such traffic. We have

Table of Contents

Index to Financial Statements

generally been successful in negotiating arrangements with carriers with which we exchange traffic; however, our business could be adversely affected should the rates some carriers charge us for terminating our customers traffic ultimately prove to be higher than anticipated.

The FCC has adopted rules that require interstate communications carriers, including PCS carriers, to make an equitable and non-discriminatory contribution to a Universal Service Fund, or USF, that reimburses communications carriers that provide basic communications services to users who receive services at subsidized rates. We have made such payments, as the FCC has required. The FCC recently initiated a rule making proceeding in which it solicits public comment on ways of reforming both the manner by which it assesses carrier contributions to the USF and the way in which carriers may recover their costs from customers. Effective April 1, 2003, the FCC prospectively forbade carriers from recovering from customers as USF charges their administrative costs associated with administering the universal service assessments that carriers are required to pay. The FCC s new rules require that carriers USF recovery charges to customers may not exceed the assessment rate that the carrier pays times the proportion of interstate telecommunications revenue on the bill. We are working diligently to comply with these new requirements. They may have an effect on our ability to recover our administrative costs for administering our participation in the program.

Wireless carriers may be designated as eligible telecommunications carriers, or ETCs, and may receive universal service support for providing service to customers that use wireless service in high cost areas. Other wireless carriers operating in states where we operate have obtained or applied for ETC status. Such other carriers receipt of universal service support funds may affect our competitive status in a particular market, by allowing our competitors to offer service at a lower rate. We are currently contemplating whether and where to apply for this designation in the various jurisdictions in which we provide wireless services to qualifying high cost areas. If such payments are made available to us, they would be an additional source of revenue to us that could be used to support the service we provide in the high cost areas.

PCS carriers are exempt from the obligation to provide equal access to interstate long distance carriers. However, the FCC has the authority to impose rules to require unblocked access through carrier identification codes or 800/888 numbers, so that PCS customers are not denied access to the long distance carrier of their choosing, if the FCC determines that the public interest so requires. Our customers have access to alternative long distance carriers using toll-free numbers.

FCC rules also impose restrictions on a telecommunications carrier s use of customer proprietary network information, or CPNI, without prior customer approval, including restrictions on the use of information related to a customer s location. We believe that our current marketing approach is consistent with FCC rules on CPNI, and do not foresee new costs or limitations on our existing practices as a result of FCC rules in that area.

Telecommunications carriers are required to make their services accessible to persons with disabilities and the FCC s rules implementing these requirements are in effect. These rules generally require service providers to offer equipment and services that are accessible to and usable by persons with disabilities, if readily achievable, and to comply with complaint/grievance procedures for violations of these provisions. These rules are largely untested and are subject to interpretation through the FCC s complaint process. While much of the focus of these rules is on the manufacture of equipment, we could be subject to the imposition of costly new requirements and, if found to have violated the rules, be subject to fines as well. As a related matter, on July 10, 2003, the FCC adopted an order requiring digital wireless phone manufacturers and wireless service providers (including us) to take steps to ensure the availability of digital wireless phones that are compatible with hearing aids, which may increase our costs for handsets we sell.

The FCC has determined that interexchange, or long distance, service offerings of CMRS providers are subject to rate averaging and rate integration requirements of the Communications Act. Rate averaging requires us to average our intrastate long distance CMRS rates between rural and high cost areas and urban areas. The FCC has delayed implementation of the rate integration requirements with respect to wide area rate plans pending further reconsideration of its rules, and has delayed the requirement that CMRS carriers integrate their

Table of Contents

Index to Financial Statements

rates among CMRS affiliates. Other aspects of the FCC s rules have been vacated by the United States Court of Appeals for the District of Columbia Circuit, and are subject to further consideration by the FCC. There is a pending proceeding in which the FCC will determine how integration requirements apply to CMRS offerings, including single rate plans. To the extent that we offer services subject to these requirements, our pricing flexibility is reduced, and we cannot assure you that the FCC will decline to impose these requirements on us.

Antenna structures used by us and other wireless providers are subject to the FCC s rules implementing the National Environmental Policy Act and the National Historic Preservation Act. Under these rules, any structure that may significantly affect the human environment or that may affect historic properties may not be constructed until the wireless provider has filed an environmental assessment and obtained approval from the FCC. Processing of environmental assessments can delay construction of antenna facilities, particularly if the FCC determines that additional information is required or if there is community opposition. In addition, several environmental groups unsuccessfully have requested changes in the FCC s environmental processing rules, challenged specific environmental assessments as inadequate to meet statutory requirements and sought to have the FCC conduct a comprehensive assessment of the environmental effects of antenna tower construction. On February 13, 2003, several of these groups filed a petition with the United States Court of Appeals for the District of Columbia Circuit seeking to force the FCC to modify its environmental processing rules to address issues under the Migratory Bird Treaty Act. Although the parties have filed briefs, there is no schedule for court action on this petition. On May 1, 2003, the FCC announced its intent to develop a strategic plan to address environmental and historic preservation issues, but the FCC did not indicate when it will take action to adopt or implement this plan.

State, Local and Other Regulation

The Communications Act preempts state or local regulation of the market entry of, or the rates charged by, any CMRS provider, which include cellular telephone service and PCS providers. The FCC denied the petitions of eight states to continue their rate regulation authority, including authority over cellular operators. As a practical matter, we are free to establish rates and offer new products and service with a minimum of state regulatory requirements. The states in which we operate maintain nominal oversight jurisdiction, primarily focusing upon prior approval of acquisitions and transfers of licenses and resolution of customer complaints. However, states may continue to regulate other terms and conditions of wireless service, and a number of state authorities have initiated actions or investigations of various wireless carrier practices. The outcome of these proceedings is uncertain and could require us to change our marketing practices and ultimately increase state regulatory authority over the wireless industry. State and local governments are also permitted to manage public rights of way and can require fair and reasonable compensation from telecommunications carriers, including PCS providers, so long as the compensation required is publicly disclosed by the government.

The location and construction of our PCS antennas and base stations and the towers we lease on which such antennas are located are subject to FCC and Federal Aviation Administration regulations and are subject to federal, state and local environmental regulation, as well as state or local zoning, land use and other regulation. Before we can put a system into commercial operation, we must obtain all necessary zoning and building permit approvals for the cell site and microwave tower locations. The time needed to obtain zoning approvals and requisite state permits varies from market to market and state to state. Likewise, variations exist in local zoning processes. Additionally, any proposed site must comply with the FCC s environmental rules. If zoning approval or requisite state permits cannot be obtained, or if environmental rules make construction impossible or infeasible on a particular site, our network design might be adversely affected, network design costs could increase and the service provided to our customers might be reduced.

We cannot assure you that any state or local regulatory requirements currently applicable to our systems will not be changed in the future or that regulatory requirements will not be adopted in those states and localities, which currently have none. Such changes could impose new obligations on us that would adversely affect our operating results.

Table of Contents

Index to Financial Statements

Future Regulation

From time to time, federal or state legislators propose legislation and federal or state regulators propose regulations that could affect us, either beneficially or adversely. We cannot assure you that federal or state legislation will not be enacted, or that regulations will not be adopted or actions taken by the FCC or state regulatory authorities that might affect our business adversely. Changes such as the allocation by the FCC of additional radio spectrum for services that compete with our business could affect our operating results adversely.

Table of Contents

Index to Financial Statements

MANAGEMENT

Directors and Executive Officers

The executive officers and directors of MetroPCS, and their ages as of the date of this prospectus, are as follows:

Name	Age	Position	Class (Directors only)
Roger D. Linquist	66	President, Chief Executive Officer, Secretary and Chairman of the Board of Directors	Class A
Malcolm M. Lorang	71	Vice President and Chief Technical Officer	
J. Lyle Patrick	52	Vice President and Chief Financial Officer	
Dennis G. Spickler	53	Vice President of Business Development	
Robert A. Young	53	Executive Vice President, Market Operations	
J. Braxton Carter	46	Vice President of Corporate Operations	
Herbert Chip Graves, IV	48	Vice President and General Manager, San Francisco	
Albert S. Loverde	64	Vice President and General Manager, Georgia	
Corey A. Linquist	42	Vice President and General Manager, Sacramento	
Frank J. Bell	49	Vice President and General Manager, Florida	
Phillip R. Terry	43	Vice President of Corporate Marketing	
Michael N. Lavey	46	Vice President and Controller	
W. Michael Barnes	62	Director	Common
C. Boyden Gray	61	Director	Class A
Harry F. Hopper, III	50	Director	Common
Joseph T. McCullen, Jr.	69	Director	Class A
Arthur C. Patterson	60	Director	Common
John Sculley	65	Director	Class A
Craig R. Stapleton	59	Director	Class A
James F. Wade	48	Director	Common

Roger D. Linquist co-founded our company and has served as our President, Chief Executive Officer, Secretary and a director since our inception. In 1989, Mr. Linquist founded PageMart Wireless (now Metrocall), a U.S. paging company. He served as PageMart s Chief Executive Officer from 1989 to 1993, and as Chairman from 1989 through March 1994, when he resigned to form MetroPCS, Inc. Prior to founding PageMart, Mr. Linquist was Chief Executive Officer of PacTel Personal Communications (which later became AirTouch) and of Communications Industries, covering the time period from 1982 to 1989. Prior to 1982, Mr. Linquist was a management consultant with McKinsey & Co. and held various management positions with Texas Instruments. Mr. Linquist served as a director of PageMart from June 1989 to September 1997, and was a founding director of the Cellular Telecommunications and Internet Association. Mr. Linquist was an executive officer of MetroPCS, Inc. when it initiated its bankruptcy proceedings in October 1997. Mr. Linquist is the father of Corey A. Linquist, our Vice President and General Manager, Sacramento, and the father-in-law of Phillip R. Terry, our Vice President of Corporate Marketing.

Malcolm M. Lorang co-founded our company and has served as our Vice President and Chief Technical Officer since our inception. Mr. Lorang has a broad background in radio frequency communications systems and systems engineering, most recently serving as Vice President of Engineering for PageMart Wireless from 1989 to

Table of Contents

Index to Financial Statements

1994. Mr. Lorang has authored numerous patents, including patents in the radio frequency communications systems area, and was involved in the development and testing of military applications for spread spectrum technology upon which CDMA is based. Mr. Lorang s experience includes positions with Magnavox Research Laboratories from 1957 to 1972, and Texas Instruments from 1972 to 1988 as a senior design engineer and member of its technical staff. Mr. Lorang was an executive officer of MetroPCS, Inc. when it initiated its bankruptcy proceedings in October 1997.

J. Lyle Patrick joined us as Vice President and Chief Financial Officer in May 2004. From 2001 until 2002, Mr. Patrick served as Vice President and Chief Financial Officer of Completel, an emerging telecommunications company headquartered in London. Prior to joining Completel, Mr. Patrick served at McLeodUSA Incorporated as Group Vice President and Chief Financial Officer from 1998 through 2001, and Executive Vice President-Telecom and Public Policy from 1997 until 1998. Subsequent to Mr. Patrick s departure, McLeodUSA filed a voluntary petition for relief under Chapter 11 of the United States Bankruptcy Code on January 31, 2002. Civil suits alleging violations of the Securities Act and the Exchange Act have been filed against McLeodUSA and its current and former officers, including Mr. Patrick. Mr. Patrick believes that these suits are without merit and intends to defend them vigorously. From 1988 until its 1997 merger into McLeodUSA, Mr. Patrick served as Chief Financial Officer, Vice President and Controller of Consolidated Communications Inc. Mr. Patrick was a partner at the accounting firm of Arthur Andersen & Co. prior to joining Consolidated Communications.

Dennis G. Spickler became our Vice President of Business Development in March 2004. Previously, Mr. Spickler served as our Vice President of Finance and Chief Financial Officer from September 1996 through March 2004. Prior to joining our company, he served as Vice President, Chief Financial and Information Technology Officer for PrimeCo Personal Communications from its inception in March 1995 through September 1996. Prior to joining PrimeCo, Mr. Spickler served in various management positions for Bell Atlantic including Managing Director, Mergers and Acquisitions from April 1991 to March 1995, and Vice President, Financial Operations for Bell Atlantic TriCon Leasing from 1988 to 1991. Mr. Spickler also served as General Manager External Reporting and Professional Accounting Matters for Bell Atlantic and prior to that was an Audit Manager for Coopers & Lybrand (now PricewaterhouseCoopers LLP). Mr. Spickler was an executive officer of MetroPCS, Inc. when it initiated its bankruptcy proceedings in October 1997.

Robert A. Young joined us as Executive Vice President, Market Operations in May 2001. Previously, Mr. Young served as President of the Great Lakes Area of Verizon Wireless from February 2001 until April 2001, and as President of Verizon Wireless Messaging Services (previously known as AirTouch Paging) from April 2000 until January 2001. Prior to joining Verizon Wireless, Mr. Young held various positions with PrimeCo Personal Communications, including Vice President Customer Care from April 1998 until April 2000, President Independent Region from October 1997 until October 1998, and Vice President/General Manager Houston from May 1995 until September 1997. He also chaired PrimeCo s Information Technology Steering Committee and was a member of its Senior Leadership Team.

J. Braxton Carter joined us as Vice President of Corporate Operations in February 2001. Prior to joining our company, Mr. Carter was Chief Financial Officer and Chief Operating Officer of PrimeCo PCS, the successor entity of PrimeCo Personal Communications formed in March 2000. He held various senior management positions with PrimeCo Personal Communications, including Chief Financial Officer and Controller, from 1996 until March 2000. Mr. Carter also has extensive senior management experience in the retail industry and spent 10 years in public accounting.

Herbert Chip Graves, IV joined us as Vice President and General Manager, San Francisco in March 2002. Prior to joining our company, Mr. Graves was employed by Sprint PCS, during which time he served as Area Vice President for Northern California from August 1998 until September 2000, and as Area Vice President for Southern California from September 2000 until March 2002.

Albert S. Loverde joined us as Vice President and General Manager, Georgia in July 1996. Prior to joining our company, Mr. Loverde served as Director of Engineering for PriCellular Wireless from February 1995 to

Table of Contents

Index to Financial Statements

July 1996, as Director of Marketing at Haddcomm International from January 1995 to March 1995, and as Vice President and General Manager for Sterling Cellular from August 1990 to January 1995. Mr. Loverde also spent 25 years at Bell Laboratories in various positions. Mr. Loverde was an executive officer of MetroPCS, Inc. when it initiated its bankruptcy proceedings in October 1997.

Corey A. Linquist became our Regional Vice President and General Manager, Sacramento in January 2001. Previously, Mr. Linquist was Director of Strategic Planning for our company, a position he held since our inception in July 1994. Prior to joining us, Mr. Linquist served in a similar position at PageMart Wireless. Mr. Linquist is the son of Roger D. Linquist, our President, Chief Executive Officer, Secretary and Chairman of our Board of Directors.

Frank J. Bell joined us as Vice President and General Manager, Florida in June 2001. Prior to joining our company, Mr. Bell was Area Vice President of Florida for Sprint PCS from February 1998 to March 2001. During his 16 years in the wireless industry, Mr. Bell has held various senior management positions with Pactel/AirTouch Paging and Dial Page.

Phillip R. Terry became our Vice President of Corporate Marketing in December 2003. Previously, Mr. Terry served as our Staff Vice President for Product Management and Distribution Services from April 2002 to December 2003, and as our Director of Field Distribution from April 2001 to April 2002. Prior to joining us, Mr. Terry was employed by WebLink Wireless where he was the Corporate Director of Carrier Services from January 1998 to March 2001, Southwest Regional Vice President from January 1995 through December 1997 and Area Vice President for Dallas/Fort Worth from January 1990 through December 1994. Mr. Terry is the son-in-law of Roger D. Linquist, our President, Chief Executive Officer, Secretary and Chairman of our Board of Directors.

Michael N. Lavey joined us as Vice President and Controller in January 2004 and also served as Interim Chief Financial Officer from March 2004 until May 2004. Prior to joining our company, Mr. Lavey served from May 2002 to November 2003 as Vice President Controller for VarTec Telecom, a nationwide provider of long distance and local telephone service. Previously, Mr. Lavey served as Vice President Corporate Controller for Excel Communications from January 2000 until its acquisition by VarTec in April 2002. Prior to joining Excel, Mr. Lavey held various management positions with BancTec, including Vice President Enterprise System Strategy from May 1996 to January 2000, Vice President and Controller North American Operations from March 1995 to May 1996, and Treasurer from March 1994 to March 1995.

W. Michael Barnes, a director of our company since May 2004, held several positions at Rockwell International Corporation (now Rockwell Automation, Inc.) between 1968 and 2001, including Senior Vice President, Finance & Planning and Chief Financial Officer from 1991 through 2001. Mr. Barnes also serves as a director of Advanced Micro Devices, Inc.

C. Boyden Gray, a director of our company since January 1997, served as Counsel to President George Bush from 1989 to 1993. From 1981 to 1988, he served in many capacities, including Counsel to then-Vice President Bush. In addition to his service to President Bush, he has been a partner at the law firm of Wilmer Cutler Pickering LLP since 1976, providing advice on a range of regulatory matters with emphasis on telecommunications, antitrust, food and drug and environmental issues. He also serves as a director of four other privately held companies. Mr. Gray was a director of MetroPCS, Inc. when it initiated its bankruptcy proceedings in October 1997.

Harry F. Hopper, III, a director of our company since May 2001, has been a managing member of Columbia Capital or its affiliates since 1994. Columbia Capital is a venture capital firm with an investment focus on communications services, media, network infrastructure and software. Mr. Hopper is currently a member of the board of directors of Affinity Internet and was formerly a director of DSL.Net, Equinix and Pegasus

Communications Inc. as well as a number of privately held companies.

Joseph T. McCullen, Jr., has been a director of our company since May 2001 and previously from December 1995 until November 2000. He has served as a Managing Director of McCullen Capital, a venture capital and

Table of Contents

Index to Financial Statements

advisory firm, since July 2001. He served as a Managing Director of Whitney & Co. from 1999 until 2001, and as a Managing Director of OneLiberty Ventures, a venture capital firm, from 1986 until 1999. Mr. McCullen also serves as a director of several privately held companies. Mr. McCullen s public sector experience includes service as Assistant Secretary of the Navy from 1973 to 1977, and as Special Assistant to the President from 1971 to 1973. Mr. McCullen was a director of MetroPCS, Inc. when it initiated its bankruptcy proceedings in October 1997.

Arthur C. Patterson, a director of our company since its inception, is a founding General Partner of Accel Partners, a venture capital firm, which was established in 1983. Mr. Patterson also serves as a director of iPass, Actuate and several privately held companies. Mr. Patterson was a director of MetroPCS, Inc. when it initiated its bankruptcy proceedings in October 1997.

John Sculley, a director of our company since December 1995, has been a partner in Sculley Brothers, a private investment capital firm, since June 1994. Mr. Sculley also serves on the boards of directors of InPhonic and several privately held companies. Mr. Sculley was a director of MetroPCS, Inc. when it initiated its bankruptcy proceedings in October 1997.

Craig R. Stapleton, a director of our company since June 2004, served as U.S. Ambassador to the Czech Republic from August 2001 to December 2003. Prior to assuming his duties in the Czech Republic, Mr. Stapleton was a real estate executive, serving since 1982 as President of Marsh and McLennan Real Estate Advisors, Inc. Mr. Stapleton currently serves on the boards of directors of T.B. Woods and Allegany Properties, and previously served on the boards of Cornerstone Properties, Security Capital Corporation and Sonoma West.

James F. Wade, a director of our company since November 2000, has served as Managing Partner of M/C Venture Partners, a venture capital firm, since December 1998. Mr. Wade leads the investment process including determining sector focus, seeking out management teams, founding new companies and working with financial sources that provide debt and equity capital to grow companies. He currently serves on the boards of directors of Cavalier Telephone, City Signal Communications and New South Communications.

Board of Directors

Our certificate of incorporation provides for two classes of directors, those elected by holders of our Class A common stock and those elected by holders of our common stock. The certificate of incorporation provides for five Class A directors and a number of common directors determined as set forth in our bylaws. We currently have five Class A directors and three common directors. Each Class A director has one vote on each matter submitted to a vote of our board of directors, and each common director currently has one vote; *provided*, *however*, that if, at any time, our board of directors has more than four common directors, each common director shall individually have a fractional vote such that the common directors collectively have four votes. The designation of common directors and election of all directors is governed by the provisions of an amended and restated stockholders agreement. All of our directors have been elected pursuant to the terms of the stockholders agreement. See Description of Capital Stock.

Committees of the Board of Directors

Our board of directors has established four standing committees: an audit committee, a nominating and corporate governance committee, a compensation committee and a finance committee. Upon the consummation of this offering, the composition of each board committee will comply with the requirements of the Nasdaq National Market and the Sarbanes-Oxley Act of 2002.

Audit Committee. The members of our audit committee are Messrs. Joseph T. McCullen, Jr., W. Michael Barnes and Harry F. Hopper, III, each of whom has been affirmatively determined by our board of directors to be independent in accordance with applicable NASD and SEC rules and the independence requirements of our audit

Table of Contents

Index to Financial Statements

committee charter. Our board of directors has determined that Mr. Barnes is an audit committee financial expert as such term is defined in Item 401 of Regulation S-K. The responsibilities of the audit committee include:

- overseeing, reviewing and evaluating our financial statements, the audits of our financial statements, our accounting and financial reporting processes, our disclosure controls and procedures and our internal control functions;
- appointing, compensating, retaining and overseeing our independent registered public accounting firm;
- pre-approving permissible non-audit services to be performed by our independent registered public accounting firm, if any, and the fees to be paid in connection therewith;
- establishing and maintaining whistleblower procedures;
- evaluating periodically our Code of Business Conduct and Ethics; and
- conducting an annual self-evaluation.

Nominating and Corporate Governance Committee. The members of our nominating and corporate governance committee are Messrs. Arthur C. Patterson, James F. Wade and Harry F. Hopper, III, each of whom has been affirmatively determined by our board of directors to be independent in accordance with Nasdaq rules. The responsibilities of the nominating and corporate governance committee include:

- assisting in the process of identifying, recruiting, evaluating and nominating candidates for membership on our board of directors and the committees thereof;
- developing processes regarding the consideration of director candidates recommended by stockholders and stockholder communications with our board of directors; and
- conducting an annual self-evaluation and assisting our board of directors and our other board committees in the conduct of their annual self-evaluations.

Compensation Committee. The members of our compensation committee are Messrs. Arthur C. Patterson, James F. Wade, Joseph T. McCullen, Jr. and Harry F. Hopper, III, each of whom has been affirmatively determined by our board of directors to be independent in accordance with Nasdaq rules. The responsibilities of the compensation committee include:

- developing and reviewing general policy relating to compensation and benefits;

- reviewing and making recommendations to our board of directors concerning the compensation and benefits of our chief executive officer and our directors;

- overseeing our chief executive officer s decisions concerning the performance and compensation of our other executive officers;

- administering our stock option and employee benefit plans;

- preparing an executive compensation report for publication in our annual proxy statement; and

- conducting an annual self-evaluation.

Finance Committee. The members of our finance committee are Messrs. Arthur C. Patterson, James F. Wade and Harry F. Hopper, III. Each of these members has been determined by our board of directors to be independent as defined by NASD and SEC rules. The responsibilities of the finance committee include:

- monitoring our present and future capital requirements and business opportunities;

- overseeing, reviewing and evaluating our capital structure and our strategic planning and financial execution processes; and

- making recommendations to our board regarding acquisitions, dispositions and our short and long-term operating plans.

Table of Contents

Index to Financial Statements

Compensation of Directors

Non-employee directors receive an annual retainer of $15,000 and $1,500 per board or committee meeting attended in person and $750 per board or committee meeting attended telephonically. In lieu of these cash payments, directors may elect to receive that number of shares of common stock equal in value to the amount of the annual retainer and they may elect to receive that number of shares of common stock equal in value to two times the amount of the individual meeting fee. The chairmen of our finance, compensation and nominating and governance committees receive an annual retainer of $17,000 and the chairman of our audit committee receives an annual retainer of $20,000.

Our non-employee directors receive an initial option grant of 40,000 shares and all non-employee directors will receive an annual option grant of 10,000 shares if they remain in office on the date of each annual stockholders meeting. Such grants will vest ratably over three years. The chairmen of our finance, compensation and nominating and governance committees receive an initial option grant of 43,000 shares and will receive an annual option grant of 12,000 shares if they remain in office on the date of each annual stockholders meeting. Our audit committee chairman receives an initial option grant of 50,000 shares and will receive an annual option grant of 15,000 shares if he remains in office on the date of each annual stockholders meeting.

Compensation Committee Interlocks and Insider Participation

Our compensation committee is currently comprised of Messrs. Arthur C. Patterson, James F. Wade, Joseph T. McCullen, Jr. and Harry F. Hopper, III. None of these individuals has been at any time an officer or employee of our company. No member of our compensation committee serves as a member of the board of directors or compensation committee of any entity that has one or more executive officers serving as a member of our board of directors or compensation committee.

Indemnification of Directors and Officers

Under Section 145 of the Delaware General Corporation Law, we have broad powers to indemnify our directors and officers against liabilities they may incur in such capacities, including liability under the Securities Act. Our certificate of incorporation provides that, under specific conditions, we shall indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding by reason of the fact that he or she is or was our director, officer, employee or agent. We have also entered into separate indemnification agreements with each of our directors and executive officers under which we have agreed to indemnify, and to advance expenses to, each director and executive officer to the fullest extent permitted by applicable law with respect to liabilities they may incur in their capacities as directors and officers.

We maintain director and officer liability insurance to insure each person who was, is, or will be our director or officer against specified losses and wrongful acts of such director or officer in his or her capacity as such, including breaches of duty and trust, neglect, error and misstatement. In accordance with the director and officer insurance policy, each insured party will be entitled to receive advances of specified defense costs.

At present, there is no pending litigation or proceeding involving any of our directors, officers, employees or agents where indemnification would be required or permitted. We are not aware of any threatened litigation or proceeding that might result in a claim for such indemnification.

Table of Contents

Index to Financial Statements

Executive Compensation

The following table sets forth the cash and non-cash compensation earned by, awarded to and paid to our named executive officers, who are our Chief Executive Officer and four other most highly compensated executive officers whose salary and bonus for the fiscal years ended December 31, 2003 were in excess of $100,000 for services rendered in all capacities to us for each such fiscal year:

Summary Compensation Table

		Annual Compensation (1)		Long-term Compensation
Name and Principal Position	**Year**	**Salary**	**Bonus**	**Number of Shares Underlying Stock Options (2)(3)**
Roger D. Linquist President, Chief Executive Officer, Secretary and Chairman of the Board	2003	$ 331,293	$ 232,600	57,000
	2002	313,125	280,600	54,700
Robert A. Young Executive Vice President, Market Operations	2003	270,669	153,600	37,500
	2002	258,750	116,607	
Dennis G. Spickler Vice President of Business Development (4)	2003	208,459	116,100	28,500
	2002	198,625	142,355	26,400
Frank J. Bell Vice President and General Manager, Florida	2003	193,040	110,000	23,250
	2002	186,089	63,173	
Herbert Chip Graves, IV Vice President and General Manager, San Francisco	2003	216,073	80,000	
	2002	191,478		55,000

(1) Perquisites and other personal benefits, securities or property, in the aggregate, are less than either $50,000 or 10% of the total annual salary and bonus reported for each named executive officer.

(2) Reflects the number of shares of common stock that each named executive officer may acquire upon the exercise of options granted under our 1995 stock option plan. See Equity Compensation Plans 1995 Stock Option Plan.

(3) To date, all options granted under the 1995 stock option plan have been immediately exercisable. Shares underlying such options, however, vest over time according to the vesting schedule for each particular option grant. Although all listed options are fully exercisable, not all shares underlying such options are fully vested. To the extent that an option holder has exercised options for unvested shares and such option holder s service with us is terminated, our 1995 stock option plan provides that we may repurchase any or all such unvested shares at a price equal to the aggregate exercise price paid for such shares.

(4)

Mr. Spickler was appointed Vice President of Business Development in March 2004. Mr. Spickler served as our Vice President of Finance and Chief Financial Officer from September 1996 through March 2004.

Option Grants in Last Fiscal Year

The following table contains additional information concerning the stock option grants made to each of the named executive officers during the fiscal year ended December 31, 2003.

	Individual Grants				Potential Realizable Value at Assumed Annual Rate of Stock Price Appreciation for Option Term (3)(4)		
Name	Number of Securities Underlying Options Granted (1) (2)	% of Total Options Granted to Employees in Fiscal Year	Exercise Price Per Share	Expiration Date	0%	5%	10%
Roger D. Linquist	57,000	5.62%	$ 4.70	9/16/2013	$ 929,100	$ 1,681,887	$ 2,836,810
Robert A. Young	37,500	3.70	4.70	6/24/2013	611,250		