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OCT 18 2012

Federal Communications Commission
Office of the Secretary

October 18, 2012

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BY HAND DELIVERY

Marlene H. Dortch, Secretary
Federal Communications Commission
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REDACTED – FOR PUBLIC INSPECTION

Re: Applications of Deutsche Telekom AG, T-Mobile USA, Inc., and MetroPCS Communications, Inc. for Consent to Transfer Control of Licenses and Authorizations, WT Docket No. 12-301

Dear Ms. Dortch:

Please find a redacted version of the Description of Transaction, Public Interest Showing and Related Demonstrations, including attached supporting declarations, related to applications filed today by Deutsche Telekom AG, T-Mobile USA, Inc., and MetroPCS Communications, Inc. seeking Commission consent to transfer control of the FCC licenses, leases and authorizations held by MetroPCS and its direct and indirect licensee subsidiaries to Deutsche Telekom AG.[1]

The filing redacts information that is "Confidential" pursuant to the Protective Order[2] or "Highly Confidential" pursuant to the Second Protective Order[3] filed in

[1] The Applicants also seek approval from the Commission for the *pro forma* transfer of the FCC licenses, leases and authorizations held by T-Mobile USA and its licensee subsidiaries.

[2] *In the Matter of Applications of Deutsche Telekom AG, T-Mobile USA, Inc., and MetroPCS Communications, Inc. for Consent to Assign or Transfer Control of Licenses and Authorizations*, Protective Order, WT Docket No. 12-301, DA 12-1664 (Oct. 17, 2012) ("Protective Order").

[3] *In the Matter of Applications of Deutsche Telekom AG, T-Mobile USA, Inc., and MetroPCS Communications, Inc. for Consent to Assign or Transfer Control of Licenses and Authorizations*, Second Protective Order, WT Docket No. 12-301, DA 12-1665 (Oct. 17, 2012) ("Second Protective Order").

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WT Docket No. 12-301.[4] Accordingly, pursuant to the procedures set forth in the Protective Orders, two copies of the filing in redacted form (the "Redacted Filing") are being provided to the Secretary's Office.[5]

Should any questions arise regarding this filing, please do not hesitate to contact the undersigned at 202.719.7344.

Best regards,

Nancy J. Victory

[4] The Applicants are separately providing the Commission with: (1) a version that contains highly confidential information pursuant to the Second Protective Order; and (2) a version that contains confidential information, but no highly confidential information, pursuant to the Protective Order.

[5] Protective Order at ¶ 9; Second Protective Order at ¶ 12.

Description of Transaction,

Public Interest Showing, and

Related Demonstrations

SUMMARY

Deutsche Telekom AG ("DT") and MetroPCS Communications, Inc. ("MetroPCS") have entered into a proposed transaction that will combine T-Mobile USA, Inc. ("T-Mobile USA") and MetroPCS into a strengthened company ("Newco") capable of meeting the competitive challenges of today's wireless marketplace. Newco, which will adopt the T-Mobile name, will have the expanded scale, spectrum and financial resources to compete aggressively with its larger competitors. By maintaining the MetroPCS business model and extending it to new local areas, Newco will be positioned to become the leading value carrier in the U.S. with the ability to deliver an enhanced customer experience by providing a wider selection of affordable products and services, deeper coverage and a world class LTE network. Because of the complementary and adjacent spectrum portfolios, Newco will have a network capable of supporting at least 20 x 20 MHz LTE deployments in many areas and also will be better able to challenge its larger rivals for premium users. In so doing, the proposed transaction benefits not only the customers of T-Mobile USA and MetroPCS, but the wireless industry and consumers as a whole.

For the added reasons enumerated below, the requested license transfers plainly satisfy the Commission's standards for approval, do not give rise to any competitive harm, and generate substantial public interest benefits. So that consumers can promptly realize these benefits, the Applicants seek expedited review and grant of the Applications.

Challenges Facing the Applicants Today. The Commission is well aware of the scale and spectrum challenges facing T-Mobile USA and MetroPCS in competing today on a stand-alone basis. This transaction will strengthen and better position a combined Newco to compete on terms that neither company could achieve on its own. At present, T-Mobile USA trails AT&T, Verizon Wireless and Sprint in market share, service revenue, and market capitalization—in many

cases by a significant margin. T-Mobile USA has a well-documented need for additional spectrum to enable an effective deployment of the high performance 4G LTE network that it will require to remain competitive long term.

Although MetroPCS has enjoyed strong growth and success in a select number of major metropolitan areas, its ability to grow beyond those areas in the future is limited by a lack of spectrum and a business model tailored to urban areas fitting certain criteria. Even within its existing service areas, MetroPCS is spectrum-constrained, challenging its ability in the future to continue to meet growing customer demands for data services and making it impossible, absent significant cost and refarming, to deploy a 4G LTE network with the large blocks of spectrum necessary to match the speeds and capacity of its larger competitors. As the Commission has noted previously, MetroPCS also faces scale disadvantages that limit its access to popular or "cutting-edge" devices and its ability to provide seamless in-network, nationwide service to its customers.

Benefits of the Transaction for Competition and Consumers. The proposed transaction helps alleviate the competitive constraints facing both companies. Newco will have the expanded scale, spectrum and financial resources to compete with its larger rivals. The transaction provides Newco with the ability to distribute the largely fixed costs of its network over a broader subscriber and customer base, enabling it to have greater pricing flexibility as well as to more effectively amortize investments in innovation. It will also have improved access to the most in-demand devices and the ability to bring new devices to market at a lower cost, enticing consumers through wider choice and better value for their money. As a publicly-traded company, Newco will have direct access to the debt and equity capital markets, giving it increased financial flexibility and enhanced stability. And, the combined company will generate substantial and achievable

synergies projected to be $6-7 billion NPV.

Even though the combined entity will still lack valuable sub-1 GHz spectrum, the transaction will address major spectrum constraints facing both T-Mobile USA and MetroPCS by combining their highly complementary spectrum portfolios. This will enable a broader and deeper roll-out of 4G LTE services than either company could readily achieve on its own, including at least 20 x 20 MHz LTE in many urban areas—which allows for higher speeds and throughput rates as well as much greater capacity than deployments using narrower carriers. Because significant portions of the spectrum held by the Applicants are in adjacent bands in common local areas, the combined company also can make more efficient use of the combined spectrum by eliminating the guard bands between adjacent channels. Moreover, by retaining many of MetroPCS' cell sites and virtually all of its Distributed Antenna Systems, Newco will experience additional capacity gains as well as improved in-building service. And, T-Mobile USA and MetroPCS plan for a straightforward technology migration program—to be completed by the second half of 2015—that will allow for rapid realization of these service and network benefits without customer disruption.

Competition will also be enhanced through the planned expansion of the MetroPCS brand to new metropolitan areas. Post-transaction, both the T-Mobile USA and MetroPCS brands will be maintained as separate Newco business units. Because T-Mobile USA has an existing nationwide network infrastructure, the combined company will be positioned—and indeed plans—to establish MetroPCS-branded distribution in new cities where the population density would not otherwise justify the capital requirements of building a new stand-alone, greenfield network. Even within MetroPCS' existing service areas, the transaction will strengthen competition by improving the speed, quality and robustness of the company's current service offerings, providing access to a nationwide LTE network, and enabling the introduction of new, innovative services and plans.

Customers of both T-Mobile USA and MetroPCS will benefit from Newco's improved offerings. MetroPCS customers will experience improved, expanded and more seamless service in several ways:

- Access to Newco's faster HSPA+ network and ultimately to the broader, deeper and more robust LTE deployments of the combined company;
- Access to Newco's much larger nationwide footprint without having to roam on another carrier's network;
- Access to a wider variety of devices at better prices, including lower cost GSM, HSPA+ and LTE handsets that enjoy scale advantages and more options than CDMA/EvDO devices;
- The ability to bring a customer's own device to Newco's network—including the iPhone (an option not available on CDMA/EvDO networks like that of MetroPCS);
- The ability to broadly roam internationally for the first time, upon switching to a GSM-based device;
- The ability to retain MetroPCS-branded service when moving out of the company's current nineteen metropolitan area service footprint; and
- The option to migrate to contract plans and still be served by the same carrier.

T-Mobile USA customers will also enjoy significant benefits from the proposed transaction:

- An immediately improved wireless experience, especially coverage and quality enhancements through the incorporation of MetroPCS' sites and spectrum into the combined company's network;
- Access to a much richer LTE experience enabled through the integrated deployment of a single LTE network supporting at least 20 x 20 MHz carriers in many major metropolitan areas; and
- Access to a wider variety of devices and service plan options provided by Newco's greater scale and volume purchasing strength.

Obviously, the strengthened Newco will also have a significant competitive impact on the wireless market as a whole, which benefits existing and future customers of all wireless carriers.

The Transaction Does Not Result in Any Competitive Harms. Importantly, the proposed transaction does not result in any competitive harms. At the national level, the

transaction clearly increases—rather than harms—competition. The FCC has previously concluded that MetroPCS is not a participant in the national wireless market and MetroPCS has not materially altered or expanded its operations in a manner that would warrant revisiting that conclusion. In contrast, the proposed transaction will actually increase competition nationally by strengthening the smallest of what the Commission has described as "nationwide" carriers and better enabling Newco to be a more effective and disruptive force. Indeed, Newco intends to be the leading value carrier in the U.S., with a focus on offering a variety of appealing plans to compete aggressively for customers seeking affordability and certainty in the cost of their wireless plans.

Nor does the proposed transaction raise competitive concerns at the local level. Post-transaction, Newco will not trigger the spectrum screen in any affected local area. At least four "built-out" competitors (with 70 percent population coverage/50 percent geographic coverage) will remain in all local areas affected by the proposed transaction, or, alternatively, that the number will remain unchanged. Significantly, in every local area involved in the proposed transaction, all four "nationwide" carriers operate facilities and will continue to do so after closing. Post-consummation, the merged company will continue to be constrained by the full range of competitors and products available at the local level.

Expedited Review and Approval Is Requested and Warranted. For the foregoing reasons, the public interest benefits generated by proposed transaction are numerous and manifest; the competitive harms are non-existent. The Commission should move swiftly to review and approve the proposed license transfers so consumers can begin to enjoy the improved services and increased level of wireless competition that will result from the proposed transaction.

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By this application and related applications (the "Applications")[1] and pursuant to Sections 214 and 310(d) of the Communications Act of 1934, as amended ("the Act"), Deutsche Telekom AG ("DT"), its wholly owned indirect subsidiary T-Mobile USA, Inc. ("T-Mobile USA"), and MetroPCS Communications, Inc. ("MetroPCS" and, collectively with DT and T-Mobile USA, "Applicants"), hereby request the Commission's consent to the transfer of control of the FCC licenses and authorizations held by MetroPCS and its direct and indirect subsidiaries from the current public shareholders of MetroPCS to DT. In addition, the Applicants also hereby request authority for the *pro forma* transfer of control of the licenses and authorizations held by T-Mobile USA and its subsidiaries as a result of the proposed transaction. As discussed herein, the proposed transfers of control satisfy the Commission's standards for approval, do not give rise to any competitive harms, and generate substantial public interest benefits for the customers of T-Mobile USA and MetroPCS, and the wireless industry as a whole. So that consumers can promptly realize these benefits, the Applicants seek expedited review and grant of the Applications.

I. DESCRIPTION OF THE APPLICANTS AND THE TRANSACTION

A. The Applicants

T-Mobile USA is headquartered in Bellevue, Washington and offers nationwide wireless voice and data services to consumer and business customers. T-Mobile USA offers services through various direct or indirect wholly-owned subsidiaries or limited liability companies of T-

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[1] Individual applications have been filed to transfer control of the radio station licenses, leases and international Section 214 authorizations involved in this transaction. ULS File No. 0005446627 is the lead wireless application; the application to transfer File No. ITC-214-20011116-00601 is the lead international Section 214 application.

Mobile USA.[2] DT, based in Bonn, Germany, is one of the world's leading telecommunications companies with operations in about 50 countries. The Federal Republic of Germany holds a direct interest in DT of approximately 15 percent. Kreditanstalt für Wiederaufbau ("KfW"), a development bank that is 80 percent owned by the Federal Republic of Germany and 20 percent owned by the German federal states, owns an interest in DT of approximately 17 percent. DT's core businesses involve the provision of fixed broadband and wireless services in Germany, throughout much of the rest of Europe, and around the world. DT holds all of its interest in T-Mobile USA through its wholly-owned subsidiary T-Mobile Global Zwischenholding GmbH ("T-Mobile Global"), which in turn owns all of the equity and voting interests of T-Mobile Global Holding GmbH ("T-Mobile Holding"), which in turn holds all of the voting and equity interests of T-Mobile USA.

MetroPCS is a publicly traded corporation listed on the New York Stock Exchange under the symbol "PCS" and headquartered in Richardson, Texas. MetroPCS is a facilities-based broadband mobile communications provider offering wireless services in select major metropolitan areas in the United States on a predominantly unlimited, flat-rate, no long-term contract basis. All of MetroPCS' broadband wireless communications services are provided through wholly-owned direct or indirect subsidiaries or limited liability companies of MetroPCS Wireless, Inc., a Delaware corporation ("MetroPCS Wireless"). MetroPCS Wireless is a wholly-owned direct subsidiary of MetroPCS, Inc., a Delaware corporation, which is a wholly owned direct subsidiary of MetroPCS.

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[2] T-Mobile USA also has interests of greater than 50% in two additional companies which provide wireless voice and data services to residential and business customers: Cook Inlet/VS GSM VII PCS, LLC and Iowa Wireless Services, LLC.

The Commission has repeatedly found that DT, through T-Mobile USA, and MetroPCS have the requisite character and qualifications to hold Commission authorizations.[3]

B. Nature of the Transaction

As discussed herein, the parties have entered into a Business Combination Agreement, dated October 3, 2012 (the "Agreement"),[4] which provides for the combination of T-Mobile USA and MetroPCS, with the resulting publicly traded company to be named T-Mobile US, Inc.[5] (hereafter the post-transaction company is referred to for clarity as "Newco"[6]). The MetroPCS brand and the T-Mobile USA brand will be retained as separate business units within Newco and the Applicants plan to expand MetroPCS-branded offerings to additional metropolitan areas after closing.

Under the Agreement, MetroPCS will effect a recapitalization and reverse split of its common stock. MetroPCS will undertake this recapitalization through a 1 for 2 reverse stock split and by making a cash payment of $1.5 billion in the aggregate to its shareholders ("Cash Payment"). Immediately following the reverse stock split and the Cash Payment, T-Mobile Holding will transfer to MetroPCS all of T-Mobile Holding's ownership interests in T-Mobile USA and MetroPCS will issue to T-Mobile Holding or its designee a number of shares of

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[3] *See Applications of Cellco Partnership d/b/a Verizon Wireless, SpectrumCo LLC, and Cox TMI*, Memorandum Opinion and Order and Declaratory Ruling, 27 FCC Rcd 10698, Para. 186 (2012) ("*Verizon Wireless/SpectrumCo Order*"); *Applications of T-Mobile USA, Inc. and Suncom Wireless Holdings, Inc.*, Memorandum Opinion and Order, 23 FCC Rcd 2515, 2519-20 Para. 10 (2008). *See, e.g., Application of MetroPCS Wireless, Inc.*, ULS File No. 0003721474 (Jan. 1, 2009).

[4] The Agreement is attached as Exhibit 5 to the lead wireless application, ULS File No. 0005446627.

[5] DT has the right to select a name other than T-Mobile US, Inc. prior to the closing.

[6] Technically, Newco is a continuation of the existing publicly-traded company MetroPCS, renamed to reflect the controlling ownership position of DT. The Applicants are utilizing the term "Newco" as a convenience to distinguish the restructured entity from the existing companies which are taking part in the proposed transaction.

MetroPCS common stock equal to 74 percent of the fully diluted shares of MetroPCS common stock outstanding at closing.[7] As part of this transaction, the companies also will restructure some of the intermediate companies in the ownership chain.[8] In addition, DT has agreed to roll its existing intercompany debt in T-Mobile USA into new $15 billion senior unsecured notes of T-Mobile USA, provide T-Mobile USA with a $500 million unsecured revolving credit facility, and provide a $5.5 billion backstop commitment for certain MetroPCS third-party financing transactions.

Thus, as shown in *Fig. 1*, following consummation of the transaction, DT through T-Mobile Holding or its designee will have a 74 percent ownership interest in Newco and the existing public shareholders of MetroPCS will hold the remaining 26 percent ownership interest.

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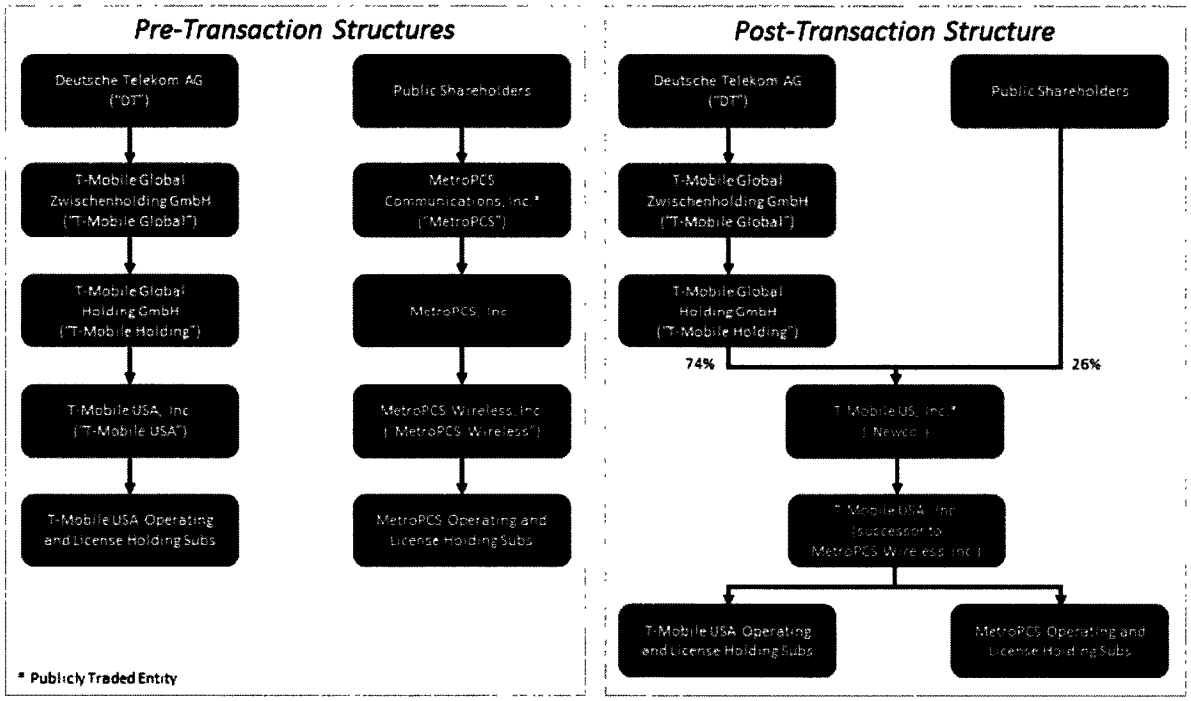
[7] As such, the proposed transaction results in a *pro forma* transfer of the licenses, leases, and authorizations held by T-Mobile USA and its subsidiaries. This transfer is *pro forma* because DT will control the licenses, leases, and authorizations both before and after the transaction.

[8] With the issuance of shares to T-Mobile Holding or its designee, MetroPCS Inc. will merge with and into MetroPCS Wireless with MetroPCS Wireless as the surviving corporation; and, immediately thereafter, MetroPCS Wireless will merge with and into T-Mobile USA with T-Mobile USA as the surviving corporation.

Fig. 1: Pre- and Post-Transaction Structure



At the closing, Newco and DT also will enter into a Stockholder's Agreement which provides, among other things, for Newco initially to have an eleven member Board of Directors, for DT to have the right to nominate a number of directors to the Board of Directors of Newco equal to its proportionate ownership interest in Newco, and for DT to have certain shareholder consent rights relating to certain material activities or transactions of Newco. As a result of DT's ownership of 74 percent of the shares of the common stock of Newco, DT will appoint a majority of the directors of Newco's Board of Directors. The Stockholder's Agreement also provides that the Board of Directors of Newco will have a minimum of three independent directors out of eleven total directors.

II. THE STANDARD OF REVIEW

In its review of license transfer applications, the Commission first assesses whether the proposed transaction complies with the specific provisions of the Communications Act, other

applicable statutes, the Commission's rules, and federal communications policy.[9] Second, the Commission weighs any potential public interest harms resulting from the proposed transaction against the potential public interest benefits of the proposed transaction. Applicants need to show by a preponderance of the evidence that the proposed transaction, on balance, serves the public interest.[10] The Commission's review is transaction-specific and the Commission repeatedly has found that merger proceedings are improper forums for addressing industry issues that are not directly related to the transaction.[11]

The Commission has determined that transfer and assignment applications that demonstrate on their face that a proposed transaction meets the public interest and will neither violate the Act or Commission rules, nor frustrate or undermine policies and enforcement of the Act, do not require extensive review or expenditures of considerable resources by the Commission.[12] Further, no detailed showing of benefits is required for a proposed transaction

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9 *See* 47 U.S.C. § 310(d).

10 *See Applications of T-Mobile License LLC and Cellco Partnership d/b/a Verizon Wireless for Consent to Assign Licenses*, Memorandum Opinion and Order and Declaratory Ruling, WT Docket No. 12-175, Para. 28 (rel. Aug. 23, 2012); *see also Applications of AT&T Inc. and Cellco Partnership d/b/a Verizon Wireless*, Memorandum Opinion and Order, 25 FCC Rcd 8704, 8716, Para. 22 (2010) ("*AT&T/Verizon Order*"); *Applications of AT&T Inc. and Centennial Communications Corp.*, Memorandum Order and Opinion, 24 FCC Rcd 13915, 13928, Para. 27 (2009) ("*AT&T/Centennial Order*").

11 *See, e.g.*, *AT&T/Centennial Order* at Para. 141; *Applications of Cellco Partnership d/b/a Verizon Wireless and Atlantis Holdings LLC for Consent to Transfer Control of Licenses, Authorizations, and Spectrum Manager and De Facto Transfer Leasing Arrangements*, Memorandum Opinion and Order and Declaratory Ruling, 23 FCC Rcd 17444, 17527-28, Para. 185 (2008) ("*Verizon/ALLTEL Order*"); *AT&T, Inc. and BellSouth Corporation Application for Transfer of Control*, Memorandum Opinion and Order, 22 FCC Rcd 5662, 5692, Para. 56 n.154 (2007).

12 *See Applications of Tele-Communications, Inc. and AT&T Corp.*, Memorandum Opinion and Order, 14 FCC Rcd 3160, 3170, Para. 16 (1999); *Applications of Ameritech Corp., Transferor, and SBC Communications Inc., Transferee, to Consent to Transfer Control of Corporations Holding Commission Licenses and Lines*, Memorandum Order and Opinion, 14 FCC Rcd 14712, 14740-41, Paras. 52-54 (1998).

where the proposed transaction does not result in any anticompetitive effects.[13] Specifically, where a merger will not reduce competition and the acquiring party possesses the requisite qualifications to control the licenses in question, a "demonstration that benefits will arise from the transfer is not . . . a prerequisite to our approval, provided that no foreseeable adverse consequences will result from the transfer."[14]

As detailed herein, the proposed transaction involves well-qualified applicants and does not violate any specific provisions of the Communications Act, other applicable statutes, the Commission's rules, or federal communications policy. Further, the proposed transaction not only does not give rise to any competitive harms, but affirmatively increases and promotes competition while bringing consumers a host of other public interest benefits. Accordingly, the Commission should move promptly to conduct its review and grant the Applications.

III. THE PROPOSED TRANSACTION WILL GENERATE SUBSTANTIAL PUBLIC INTEREST BENEFITS

The creation of Newco will result in a number of clear public interest benefits for customers of T-Mobile USA and MetroPCS, as well as wireless consumers as a whole. First, the proposed transaction will bring together two companies that, on their own, face challenges, and make them stronger, putting them in a better position to aggressively contend with the larger "nationwide" carriers, thereby promoting competition in the wireless marketplace. Second, the proposed transaction will enable broader and deeper deployment of higher quality LTE services, thereby addressing one of the challenges facing both companies. Third, the proposed transaction

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[13] *See Applications of Southern New England Telecomm. Corp. and SBC Communications Inc.*, Memorandum Opinion and Order, 13 FCC Rcd 21292, 21315, Paras. 45-46 (1998) ("*SNET/SBC Order*").

[14] *Applications of Pacific Telesis Group and SBC Communications Inc.*, Memorandum Opinion and Order, 12 FCC Rcd 2624, 2626-27, Para. 2 (1997) ("*PacTel/SBC Order*"); *see also Comcast Cellular Holdings, Inc. and SBC Communications, Inc.*, Memorandum Opinion and Order, 14 FCC Rcd 10604, 10608-09, Para. 9 (WTB 1999) ("*Comcast/SBC Order*").

will generate substantial projected network and non-network synergies of $6-7 billion on a net present value ("NPV") basis, thereby enabling Newco to continue and enhance the tradition of MetroPCS and T-Mobile USA offering customers better value for their money. As detailed below, these transaction-specific benefits will help the combined company compete more effectively and benefit both its current and future customers.

A. Newco Will Strengthen Competition in the Wireless Marketplace

The proposed transaction will enhance competition in several key ways. First, Newco will be in a stronger position to compete more aggressively and effectively against its three larger wireless rivals, each of which has substantially larger market share, revenue, earnings, cash flow and customer base. Second, Newco plans to retain and expand the MetroPCS brand and service in order to bring MetroPCS' compelling, unlimited, flat rate, no long-term contract offerings to new cities and to provide many value-driven customers with increased options. Third, Newco will be able to achieve more efficient use of spectrum and greater economies of scale than either constituent company is able to achieve on its own. This will bring substantial benefits to existing customers of both T-Mobile USA and MetroPCS, who will experience more robust service and innovative options. The strength of the enhanced offerings will in turn spur competitive responses from all other providers, including the larger nationwide carriers, increasing overall wireless competition.

1. The Proposed Transaction Will Enable Newco to Compete More Aggressively Against the Three Larger Nationwide Wireless Providers, Increasing Competition in the Marketplace as a Whole

a. Challenges Facing T-Mobile USA Today

T-Mobile USA trails the larger "nationwide" carriers in market share, service revenue, and market capitalization—in some cases by a significant margin. In the *Fifteenth Wireless Competition Report*, the Commission found that AT&T and Verizon Wireless each accounted for

over 30 percent of subscribers at the end of 2010; Sprint's share was 16 percent; and T-Mobile USA's share was 11 percent.[15] And, T-Mobile USA's share of the market has decreased since then—its current share of subscribers was recently estimated at 9.9 percent.[16] A comparison of service revenues with the other nationwide carriers reflects a similar imbalance. In the second quarter of 2012, AT&T and Verizon Wireless earned more than three times, and Sprint almost double, the amount of service revenue that T-Mobile USA earned.[17] And while Verizon Wireless, AT&T, and Sprint all experienced year-over-year growth in wireless service revenues, T-Mobile USA was the only provider to see a decline over the same period.[18]

As a result, T-Mobile USA's current ability to exert competitive pressure on its larger competitors is constrained. Its smaller scale also puts it at a significant cost disadvantage to its three nationwide rivals because T-Mobile USA must allocate the largely fixed costs of its

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15 *See Implementation of Section 6002(b) of the Omnibus Budget Reconciliation Act of 1993, Annual Report and Analysis of Competitive Market Conditions with Respect to Mobile Wireless, including Commercial Mobile Services*, Fifteenth Report, 26 FCC Red 9664, 9796 Para. 214 (2011) ("*Fifteenth Wireless Competition Report*").

16 Bank of America Merrill Lynch 2Q12 US Wireless Matrix (Aug. 17, 2012).

17 In the second quarter of 2012, T-Mobile USA earned $4.4 billion in service revenue. Press Release, T-Mobile USA, "T-Mobile USA Reports Second Quarter 2012 Operating Results" (Aug. 9, 2012), *available at* http://newsroom.t-mobile.com/articles/t-mobile-usa-reports-second-quarter-2012-operating-results. In comparison, Verizon Wireless earned $15.8 billion in service revenue and AT&T earned $14.8 billion in wireless service revenue in the same period. Press Release, Verizon Wireless, "Verizon Reports Continued Double-Digit Earnings Growth and Strong Operating Cash Flow in Second-Quarter 2012" (Jul. 19, 2012), *available at* http://news.verizonwireless.com/news/2012/07/pr2012-07-19.html; Press Release, AT&T, "AT&T Reports 10 Percent Earnings Growth, Strong Revenue and Margin Gains and Best-Ever Wireless Margins and Churn in Second-Quarter Results" (Jul. 24, 2012), *available at* http://www.att.com/gen/press-room?pid=23091&cdvn=news&newsarticleid=34898. For its part, Sprint earned $7.3 billion for the same period. *See* Press Release, Sprint, "Sprint Nextel Reports Second Quarter 2012 Results and Updates Full Year Forecast" (Jul. 26, 2012), *available at* http://newsroom.sprint.com/article_display.cfm?article_id=2340.

18 Verizon Wireless had +7.3 percent growth in wireless service revenue from the second quarter of 2011 to the second quarter of 2012, while AT&T had +4.8 percent, and Sprint had +8%. T-Mobile USA had -5.2% year-over-year growth during that same period. Bank of America Merrill Lynch 2Q12 US Wireless Matrix *supra* note 16.

network over a smaller subscriber base, so its costs-per-subscriber are higher than its larger competitors.[19] Scale also plays a role with respect to equipment and handset purchases, capital formation, and other operational costs.

Further, a high-performance, national 4G LTE network is essential to compete effectively in the wireless broadband marketplace. The 4G LTE air interface delivers a number of network improvements in spectral efficiency, delivered network speeds, capacity and latency that are necessary to manage the explosive growth in demand from wireless customers for data services. Moreover, access to sufficient spectrum is critical to ensure a competitive 4G LTE service. T-Mobile USA has faced significant spectrum challenges in deploying advanced technology that have caused it to defer offering 4G LTE until next year. It thus will lag behind the 4G LTE deployments of its larger rivals, which could cause T-Mobile USA to suffer further in comparison to them.[20] While T-Mobile USA's current more limited spectrum holdings (including the "break up" spectrum acquired from AT&T earlier this year and the spectrum recently acquired from Verizon Wireless) allow it to proceed with its initial 4G LTE rollout, there are still areas in its footprint that will be limited to a 5 x 5 MHz deployment. Moreover, T-Mobile USA's existing spectrum resources will not be adequate to keep pace with demand in the longer term,[21] which could mean that over time its LTE services will compare unfavorably to those of its larger nationwide competitors.

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19 Declaration of Peter Ewens, at Paras. 5-7, attached as Attachment 1 ("Ewens Decl.").

20 *Id.* at Para. 7.

21 Declaration of Mark McDiarmid at Para. 11, attached as Attachment 2 ("McDiarmid Decl.").

b. The Proposed Transaction Will Address the Competitive Challenges Faced by T-Mobile USA

The proposed transaction offers transaction-specific benefits which will help alleviate many of the restraints on T-Mobile USA's ability to compete effectively against its larger rivals. Newco will have expanded scale, spectrum and financial resources over T-Mobile USA today. These resources will enable Newco to expand its geographic coverage, improve its in-building penetration, broaden choice among all types of customers and continue to innovate by accelerating its next-generation 4G LTE network, thus enabling Newco to be a stronger and more stable competitor. In short, the proposed transaction will begin narrowing the distance between Newco and its larger nationwide rivals, AT&T, Verizon Wireless and Sprint.[22]

As a starting point, the proposed transaction provides Newco with the ability to distribute the largely fixed costs of its network over a broader subscriber and customer base.[23] Accordingly, Newco should have a lower cost-per-subscriber than T-Mobile USA does today. With lower fixed costs per subscriber, Newco should generate greater earnings per customer and have greater pricing flexibility.[24] Both of these factors impact Newco's competitiveness compared to other nationwide carriers and Newco's ability to invest in next-generation LTE on a broad basis. Greater scale also means that the combined company's expenses and investments in innovation can be amortized over a larger customer base and product portfolio, which will allow the combined company to pass the benefits of increased scale on to its customers.[25]

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22 Based on the YE2010 in Table 3 of the *Fifteenth Wireless Competition Report*, T-Mobile USA has a 12.15 percent share of the users subscribed to nationwide carriers. Combining MetroPCS' customers, Newco will serve over 14 percent of the users subscribed to nationwide carriers. *See Fifteenth Wireless Competition Report* at Para. 31, Table 3.

23 Ewens Decl. at Para. 11.

24 *Id.*

25 *Id.*

With respect to handsets, Newco will have improved access to the most in-demand devices and the ability to bring new devices to market at a lower cost, enticing consumers through wider choice and potentially lower prices.[26] By combining the two companies' extensive existing distribution channels, Newco also will enjoy a wider distribution scale and routes to market, making it more attractive to potential strategic and technology partners, including device or equipment manufacturers, content companies, or application developers.

Newco also will realize efficiencies as a result of the combined spectrum holdings that result from the proposed transaction. Newco will hold an average of 76 MHz in the top 25 CMAs—a 20.6 percent increase over T-Mobile USA's existing holdings. As detailed in Section III.B., the augmented spectrum holdings of Newco will allow it to address significant challenges facing both T-Mobile USA and MetroPCS in meeting rapidly increasing customer demands for capacity-hungry data services. Perhaps most importantly, combining this complementary spectrum will enable a broader, deeper, and higher capacity roll-out of 4G LTE services than either company could achieve on its own, including at least 20 x 20 MHz for 4G LTE in many areas. In addition, significant portions of the spectrum held by T-Mobile USA and MetroPCS are in adjacent bands in common markets, especially in the advanced wireless services ("AWS") band. As a result, the proposed transaction provides a unique benefit of allowing Newco to make more efficient use of the combined spectrum by realizing the benefit of statistical multiplexing and eliminating the guard bands between the adjacent channels.[27] This will improve the efficiency of spectrum utilization and the speed, quality, capacity and robustness of Newco's wireless offerings, as well as enable the combined company to advance its business-to-business

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26 *Id.* at Paras. 23, 25.

27 McDiarmid Decl. at Para. 8.

("B2B") offerings and mobile virtual network operator ("MVNO") platform. All of these benefits will enable Newco to compete more effectively.

The proposed transaction also will provide Newco with increased financial flexibility and enhanced stability. As a public company, Newco will have direct access to the debt and equity capital markets, enabling it to obtain capital for growth more easily.[28] Newco is projected to have increased earnings before depreciation, interest and amortization ("EBITDA") and improved free cash flow, both of which will enable it to attract capital in the future should Newco have the need.[29] The proposed transaction will also give Newco enhanced stability due to the substantial projected transaction specific cost synergies—anticipated to have a value of $6-7 billion NPV.[30] All of these elements will enable Newco to have the ability and the incentive to be a disruptive force as a value leader among the nationwide carriers.

2. The Proposed Transaction Will Enable the Expansion of the MetroPCS Brand to New Areas, Increasing Competition in Many Localities

MetroPCS currently has a successful unlimited, flat rate, no long-term contract business model, providing popular offerings targeted at value-conscious consumers.[31] In many of the nineteen major metropolitan areas where it operates, MetroPCS has realized significant market

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[28] Ewens Decl. at Para. 13.

[29] T-Mobile USA and MetroPCS to Combine, Presentation, Neville Ray, "Creating the Value Leader in Wireless," at Slide 6, 11 (Oct. 3, 2012) *available at* http://www.telekom.com/pcs.

[30] *Id.* at Slide 26; Ewens Decl. at Para. 14.

[31] Declaration of Douglas S. Glen at Para. 4, attached as Attachment 3 ("Glen Decl."); Press Release, MetroPCS Investor Relations, "MetroPCS Reports Second Quarter 2012 Results" (Jul. 26, 2012), http://investor.metropcs.com/phoenix.zhtml?c=177745&p=irol-newsArticle&ID=1718673&highlight= (noting that MetroPCS is the nation's leading provider of no-annual contract, unlimited, flat-rate wireless plans). The Commission has recognized MetroPCS as fifth among the top 14 facilities-based wireless carriers. *See Fifteenth Wireless Competition Report* at Para. 31, Table 3.

penetration and strong growth, particularly during the first decade after its initial launch of service.[32] In a few of these major metropolitan areas, MetroPCS is among the leaders in terms of customers, though MetroPCS remains a fairly small competitor nationally with about three percent market share.[33] Despite its success, because of a lack of available spectrum and the fact that the MetroPCS facilities-based business model is best suited in and around densely populated urban areas, MetroPCS has few opportunities to expand its business model to new major metropolitan areas beyond the footprint of its existing spectrum. Further, the substantial costs of obtaining spectrum and building infrastructure in new major metropolitan areas constrains the ability of MetroPCS to expand on a facilities-based basis to new urban areas it does not currently serve. MetroPCS' relatively limited spectrum holdings in its core major metropolitan areas also presents a challenge to MetroPCS' ability to meet its customers' growing demands for capacity-hungry data services.

MetroPCS' network deployment model is highly dependent on a few key market factors that must be present in any geographic area before the company can justify network deployment. As explained in the Glen Declaration, "[t]he wireless industry is characterized by relatively high sunk costs," and "the economics of the MetroPCS model are best suited to relatively dense, major metropolitan areas where the high sunk costs of establishing a network and distribution, and the initial operating losses associated with start-up operations, can be supported by the projected number of new subscribers."[34] Thus, while the MetroPCS business model works well

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[32] Glen Decl. at Para. 4. Joint Opposition of AT&T and T-Mobile USA, WT Docket No. 11-65 at 135 (June 10, 2011) (noting that AT&T responds "increasingly to MetroPCS" in markets where AT&T and MetroPCS compete against one another).

[33] Glen Decl. at Para. 4. Joseph Palenchar, TWICE, "T-Mobile, MetroPCS See Seamless Transition," *available at* http://www.twice.com/articletype/news/t-mobile-metropcs-see-seamless-transition/103433 (last visited Oct. 16, 2012).

[34] Glen Decl. at Para. 5.

in dense urban cores, the same business model would face extreme challenges in the hundreds of small and mid-sized cities currently served by the larger nationwide carriers.

In fact, MetroPCS on its own is unlikely to expand its facilities-based business model beyond its existing spectrum footprint. MetroPCS has engaged in a clustering strategy where it supplements its service to dense, urban major metropolitan areas with coverage in adjacent smaller metropolitan areas that have a business or economic affinity to the large, nearby metropolitan area. In essence, smaller metropolitan areas can be served most economically using MetroPCS' business model when there is a synergistic urban metropolitan area. As noted in the Glen Declaration, "[b]ecause a number of mid-sized cities lack a dense urban core or a nearby dense, urban major metropolitan area, expansion of the MetroPCS wireless network into a number of mid-sized cities without a dense, urban core is unlikely to yield a sufficient return to justify the substantial investment."[35] As such, the economics of the vast majority of geographic areas in the United States outside MetroPCS' existing spectrum footprint would not be likely to support the MetroPCS business model on a standalone basis.

This problem is further exacerbated by the lack of spectrum to expand into major metropolitan areas where MetroPCS' facilities-based business model could be successful. For example, MetroPCS participated in Auction 73 in 2008, but was able to acquire only a 6 x 6 MHz channel in the Boston area, despite the fact that it had additional funds available to spend.[36] Since late 2009, MetroPCS consistently has sought to obtain additional spectrum at sustainable prices in additional major metropolitan areas through private transactions, but has been unsuccessful.[37] MetroPCS was able to raise in the public capital markets approximately $1

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35 *Id.*

36 *Id.* at Para. 6.

37 *Id.*