NATIONAL AUTO CREDIT INC /DE
Form 10-Q
June 14, 2001

1

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(MARK ONE)

X QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended April 30, 2001

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ___________ to ___________

Commission file number 1-11601

NATIONAL AUTO CREDIT, INC.
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or organization)

34-1816760
(I.R.S. Employer Identification No.)

30000 Aurora Road, Solon, Ohio 44139
(Address of principal executive offices and zip code)

(440) 349-1000
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes X No

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

As of May 31, 2001 there were 11,721,284 shares of Common Stock, $.05 par value, outstanding.

2

NATIONAL AUTO CREDIT, INC. AND SUBSIDIARIES

TABLE OF CONTENTS

3

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

REPORT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors and Stockholders of
National Auto Credit, Inc. and Subsidiaries
Solon, Ohio

We have reviewed the accompanying condensed consolidated balance sheet and stockholders' equity and comprehensive income of National Auto Credit, Inc. and its subsidiaries as of April 30, 2001, and the related statements of operations and cash flows for each of the three-month periods ended April 30, 2001 and 2000. The financial statements are the responsibility of the Company's management.

We conducted our reviews in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to such condensed consolidated financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated balance sheet as of January 31, 2001, and the related consolidated statements of operations, stockholders' equity, and cash flows for the year then ended (not presented herein) and in our report dated April 16, 2001 (except for Note E as to which the date is May 9, 2001), we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of January 31, 2001, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ Grant Thornton LLP
Cleveland, Ohio
June 11, 2001

NATIONAL AUTO CREDIT, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS, EXCEPT SHARE AMOUNTS)
(UNAUDITED)

	April 30, 2001
ASSETS	
Cash and cash equivalents	$ 10,37
Marketable securities (Note C)	1,03
Investment in AFC (Note D)	10,11
Property and equipment, net of accumulated depreciation of $264, and $186, respectively	77
Goodwill	6,10
Assets held for sale (Note E)	2,75
Income taxes refundable	3,66
Other assets	74
TOTAL ASSETS	$ 35,56
LIABILITIES AND STOCKHOLDERS' EQUITY	
LIABILITIES	
Self-insurance claims	$ 90
Accrued income taxes	1,03
Other liabilities	4,06
	6,00
COMMITMENTS AND CONTINGENCIES (Note F)	
REDEEMABLE PREFERRED STOCK (Redemption value $936)	65
STOCKHOLDERS' EQUITY	
Preferred stock	
Common stock - $.05 par value authorized 40,000,000 shares, issued 39,377,589 and 39,420,437 shares, respectively	1,96
Common stock to be issued	
Additional paid-in capital	174,33
Retained deficit	(124,23
Accumulated other comprehensive income (loss)	(9
Treasury stock, at cost, 27,656,305 and 27,901,305 shares, respectively	(23,07
	28,90
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 35,56

See notes to condensed consolidated financial statements.

NATIONAL AUTO CREDIT, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)
(UNAUDITED)

	Three Months Ended April 30,	
	2001	200
REVENUE		
Interest income from loans	$ -	$
Interest income from investments	140	
Income from AFC investment	86	
E-commerce revenues	226	
Other income	-	
Total	452	
COSTS AND EXPENSES		
Provision for credit losses	(393)	
Loss on sale of loans	-	
Operating	1,703	
General and administrative	1,436	
Litigation and other charges	-	
Write-down of assets held for sale	-	
Restructuring charges	60	
Total	2,806	
LOSS BEFORE INCOME TAXES	(2,354)	
Provision for income taxes	-	
NET LOSS	(2,354)	
Accretion of discount on redeemable preferred stock	24	
NET LOSS APPLICABLE TO COMMON STOCK	$ (2,378)	$
LOSS PER SHARE		
Basic and diluted	$ (.20)	$
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING		
Basic and diluted	11,606	

See notes to condensed consolidated financial statements.

NATIONAL AUTO CREDIT, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
AND COMPREHENSIVE INCOME
THREE MONTHS ENDED APRIL 30, 2001
(IN THOUSANDS, EXCEPT SHARE AMOUNTS)
(UNAUDITED)

	Preferred Stock		Common Stock			A
	Shares	Par Value	Shares	Par Value	Common Stock to be issued	
BALANCE, JANUARY 31, 2001	-	$ -	39,420,437	$ 1,971	$ 219	
Net loss						
Stock award					(219)	
Stock cancelled under benefit plans			(42,848)	(2)		
Accretion on redeemable preferred stock						
Other comprehensive income-unrealized loss on marketable securities						
Comprehensive income (loss)						
BALANCE, APRIL 30, 2001	-	$ -	39,377,589	$ 1,969	$ -	

	Treasury	Accumulated Other Comprehensive	Comprehensive Income

	Stock	Income	Total	(Loss)
BALANCE, JANUARY 31, 2001	$ (23,275)	$ (44)	$31,455	
Net loss			(2,354)	$ (2,354)
Stock award	204		(66)	
Stock cancelled under benefit plans			(50)	
Accretion on redeemable preferred stock			(24)	
Other comprehensive income-unrealized loss on marketable securities		(53)	(53)	(53)
Comprehensive income (loss)				$ (2,407)
BALANCE, APRIL 30, 2001	$ (23,071)	$ (97)	$28,908	

See notes to condensed consolidated financial statements.

4

7

NATIONAL AUTO CREDIT, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)
(UNAUDITED)

	Three Months Ende April 30,	
	2001	2000
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Loss	$ (2,354)	$ (5,
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	719	
Provision for credit losses	(393)	(
Loss on sale of loans	-	2,

Write-down of assets held for sale	-	
Changes in operating assets and liabilities:		
Accrued income tax paid (refundable)	5	(
Other liabilities	(923)	1,
Self-insurance claims	(63)	
Other operating assets and liabilities, net	243	(1,
Net cash used in operating activities	(2,766)	(4,
CASH FLOWS FROM INVESTING ACTIVITIES		
Principal collected on loans	80	5,
Proceeds from sale of loans	313	23,
Change in contracts in progress	456	
Investment in AFC	-	(1,
Proceeds from sale of assets	30	
Purchase of marketable securities	-	(25,
Proceeds from sale of marketable securities	-	4,
Purchase of other property and equipment	(66)	
Purchase of affordable housing investments	-	(
Net cash provided by investing activities	813	6,
CASH FLOWS FROM FINANCING ACTIVITIES		
Stock award	(66)	
Stock cancelled under benefit plans	(50)	
Net cash used in financing activities	(116)	
(Decrease) increase in cash and cash equivalents	(2,069)	2,
Cash and cash equivalents at beginning of period	12,444	54,
Cash and cash equivalents at end of period	$ 10,375	$ 56,
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Interest paid	$ -	$
Income taxes paid (refunded)	$ (5)	$

See notes to condensed consolidated financial statements.

NATIONAL AUTO CREDIT, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE A - BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements include the accounts of National Auto Credit, Inc. and subsidiaries (the "Company"). The financial statements are unaudited, but in the opinion of management, reflect all adjustments (consisting only of normal recurring accruals) necessary for a fair presentation of the Company's consolidated financial position, results of operations, stockholders' equity and comprehensive income, and cash flows for the periods presented.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial statements and with the rules of the Securities and Exchange Commission applicable to interim financial statements, and therefore do not include all disclosures that might normally be required for interim financial statements prepared in accordance with generally accepted accounting principles. The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the Company's consolidated financial statements, including the notes thereto, appearing in the Company's Annual Report on Form 10-K for the year ended January 31, 2001.

The preparation of financial statements and the accompanying notes thereto, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the respective reporting periods. Actual results could differ from those estimates.

Cash and cash equivalents at April 30, 2001 include restricted cash of $210,000 pursuant to an agreement with a former president.

Certain fiscal 2001 amounts have been reclassified to conform with fiscal 2002 presentations.

NOTE B - ACQUISITION

On December 15, 2000, the Company acquired ZoomLot Corporation ("ZoomLot") in exchange for the issuance of 270,953 shares of its Series B convertible preferred stock and 729,047 shares of its Series C redeemable preferred stock. The terms of the Series B convertible preferred stock provided that it would automatically convert into shares of the Company's common stock, at the ratio of ten shares of the Company's common stock for each share of Series B convertible preferred stock, upon the termination of the November 3, 2000 Stock Purchase and Standstill Agreement between the Company and Reading Entertainment, Inc. ("Reading"), FA, Inc. (a wholly-owned subsidiary of Reading), Citadel Holding Corporation and Craig Corporation. As a result of the termination of the Stock Purchase and Standstill Agreement, on December 15, 2000, the Company converted the 270,953 shares of the Series B convertible preferred stock into 2,709,530 shares of its common stock.

The acquisition was accounted for using the purchase method of accounting in accordance with Accounting Principles Board Opinion No. 16, "Business Combinations" ("APB 16"). The following sets forth the unaudited pro forma condensed results of operations for the three months ended April 30, 2000 assuming the acquisition of ZoomLot had been completed on February 1, 2000. The following pro forma information is presented for illustrative purposes only and does not purport to be indicative of the operating results that would have been obtained had the acquisition been completed on that date, nor of future operating results.

NATIONAL AUTO CREDIT, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE B - ACQUISITION (cont.)

Pro forma revenues, net loss and loss per share are as follows (in thousands, except for the per share amount):

Total revenue	$ 1,492
Net loss	$ (6,820)
Loss per share	$ (.24)

NOTE C - MARKETABLE SECURITIES

Marketable securities at April 30, 2001 are summarized as follows (in thousands):

		Gross Unrealized		
	Cost	Gains	Losses	Fair V
Equity securities - mutual funds	$ 1,127	$ -	$ 97	$ 1,030

All marketable securities were classified as available for sale.

NOTE D - INVESTMENT IN AFC

The Company owns a 50% membership interest in Angelika Film Center, LLC ("AFC"). AFC is the owner and operator of the Angelika Film Center, which is a multiplex cinema and cafe complex in the Soho District of Manhattan in New York City.

AFC is currently owned 50% by the Company, 33.34% by Reading and 16.66% by Citadel Cinemas, Inc. (a wholly-owned subsidiary of Citadel Holding Corporation). The articles and bylaws of AFC provide that for all matters subject to a vote of the members, a majority is required, except that in the event of a tie vote, the Chairman of Reading shall cast the deciding vote.

The Company uses the equity method to account for its investment in AFC, and treats as goodwill and amortized over a 20 year period on a straight line basis the difference between its initial investment in AFC and its share of AFC's net assets. AFC uses a December 31 year-end for financial reporting purposes. The Company reports on a January 31 year-end, and for its fiscal quarters ending April 30, July 31, October 31 and January 31 records its pro-rata share of AFC's earnings on the basis of AFC's fiscal quarters ending

March 31, June 30, September 30, and December 31, respectively. For the three months ended April 30, 2001, the Company recorded income of $86,000 representing its share of AFC's net income for the three months ended March 31, 2001 net of goodwill amortization of approximately $68,000.

\ NATIONAL AUTO CREDIT, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE D - INVESTMENT IN AFC (cont.)

Summarized income statement data for AFC for the three months ended March 31, 2001 and 2000 is as follows (in thousands):

	Three Months Ended March 31,	
	2001	2000
Revenues	$ 2,035	$ 1,429
Film rental	742	435
Operating costs	742	591
Depreciation and amortization	173	173
General and administrative expenses	70	38
	1,727	1,237
Net income	$ 308	$ 192

NOTE E - ASSETS HELD FOR SALE

Assets held for sale are as follows (in thousands):

	April 30, 2001	January 31, 2001

Affordable housing investments	$ 2,670	$ 2,670
Other assets	85	115
Total	$ 2,755	$ 2,785

The Company has certain investments in affordable housing projects which previously the Company had been holding for realization through the receipt of distributions from the operations of the projects and the use of the tax credits generated by the investments. In the fourth quarter of fiscal 2000, the Company committed to a plan to sell the investments and recorded a cumulative write-down for fiscal years 2000 and 2001 of $7,849,000 to reduce the carrying amount of the investments to their fair value less estimated costs to sell. The Company expects to complete the sale of the investments in the second half of fiscal 2002 and future operating results could be affected by revisions of the estimates of the fair value less estimated costs to sell the investments, which changes could be material due to the uncertainties inherent in the estimation process. As a limited partner in these affordable housing projects, the Company is required to make future contributions on January 31, 2002, of $432,000, plus interest at an average rate of 8.9% per annum.

NOTE F - COMMITMENTS AND CONTINGENCIES

In the normal course of its business, the Company is named as defendant in legal proceedings. It is the policy of the Company to vigorously defend litigation and/or enter into settlements of claims where management deems appropriate.

NATIONAL AUTO CREDIT, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE F - COMMITMENTS AND CONTINGENCIES (cont.)

Following the resignation of Deloitte & Touche in January 1998, the Securities and Exchange Commission, the United States Attorney for the Northern District of Ohio, and the Federal Bureau of Investigation, are investigating the issues raised as the result of the resignation of Deloitte & Touche. The Company is cooperating fully with the investigations. The ultimate outcome of these investigations on the Company cannot presently be predicted and the Company has not recorded any provision for any monetary penalties that may result from civil or criminal proceedings that might be commenced at the conclusion of such investigations. Any unfavorable resolution of any of these investigations could have a material adverse effect on the Company's financial position, results of operations and liquidity.

NOTE G - RESTRUCTURING

During January 2001, the Company committed to a plan of restructuring its operations and relocating its corporate offices from Solon, Ohio to New York City, New York. As part of the plan, and in accordance with EITF Issue No. 94-3, "Liabilities Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity", in the fourth quarter of fiscal 2001, the Company recorded a restructuring charge of $1,777,000 comprised of a write-down for property and equipment of $922,000 and the accrual of expenses aggregating

$855,000.

The following sets forth the activity in the accrued restructuring costs for the three months ended April 30, 2001 (in thousands):

	Three Months Ended April 30, 200		
	Accrued at February 1, 2001	Costs Incurred	Changes in Estimates
Employee termination costs	$ 575	$ (295)	$ 30
Lease terminations	130	(24)	-
Outplacement fees and other	150	(123)	30
Total	$ 855	$ (442)	$ 60

NATIONAL AUTO CREDIT, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE H - SEGMENT INFORMATION

During fiscal 2000 the Company operated in a single operating segment; investing in sub-prime used automobile loans (the "automobile financing" segment). In fiscal 2001, as result of its investment in AFC and its acquisition of ZoomLot, the Company began to classify its operations into three operating segments:

- the e-commerce segment, which is comprised of ZoomLot's development of services to facilitate, through e-commerce, the process by which used car dealerships, lenders and insurance companies communicate and complete the transactions between them that are needed to provide the used car dealer's customers with financing, insurance, and other services. ZoomLot currently provides these services, on a limited basis, using a combination of Internet and manual processes, and is continuing its efforts to develop a fully e-commerce process;

- the movie exhibition segment, which is comprised of the activities of AFC;

- the automobile financing segment.

The Company did not acquire its investment in AFC, or ZoomLot, until after the first quarter of fiscal 2001, and accordingly was still operating in a single segment during that period.

Operating segment information for the three months ended April 30, 2001 is as follows (in thousands):

	E-Commerce	Automobile Financing	Movie Exhibition	Gen Corp
Revenues	$ 226	$ -	$ 86	$
Unusual items				
Restructuring charges	-	-	-	
Income (loss) before income taxes	(1,443)	359	86	(1

10

13

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

GENERAL

National Auto Credit, Inc. (the "Company") began operations in 1969 and was incorporated in Delaware in 1971. The Company's principal business activity is conducted through ZoomLot Corporation ("ZoomLot"), a wholly-owned subsidiary, which is engaged in the development of services to facilitate, through e-commerce, the process by which used car dealerships, lenders and insurance companies communicate and complete the transactions between them that are needed to provide the used car dealer's customers with financing, insurance, and other services. ZoomLot currently provides these services, on a limited basis, using a combination of Internet and manual processes, and is continuing its efforts to develop a fully e-commerce process. The Company acquired ZoomLot on December 15, 2000. The Company also owns a 50% membership interest in Angelika Film Center, LLC ("AFC"). Additionally, the Company is considering various additional strategic business alternatives, including, but not limited to, the purchase of one or more existing businesses or the entry into one or more businesses.

From October 1995 through March 2000, the Company's principal business activity was to invest in sub-prime used automobile consumer loans, which took the form of installment loans collateralized by the related vehicle. The Company purchased such loans, or interests in pools of such loans, from member dealerships, and performed the underwriting and collection functions for such loans. In the first and second quarters of fiscal 2001, the Company sold its active loan portfolio and the majority of its charged-off portfolio. However, since the Company had not yet made a definitive decision that it will not reenter some aspect of the consumer lending business, these operations have not been classified as a discontinued operation as of April 30, 2001.

As of April 30, 2001 the Company's operations are classified as three operating segments:

- the e-commerce segment, which is comprised of ZoomLot's development of services to facilitate, through e-commerce, the process by which used car dealerships, lenders and insurance companies communicate and complete the transactions between them that are needed to provide the used car dealer's customers with financing, insurance, and other services. ZoomLot currently provides these services, on a limited basis, using a combination of Internet and manual processes, and is continuing its efforts to develop a fully e-commerce process;

- the movie exhibition segment, which is comprised of the activities of AFC;

- the automobile financing segment.

The Company reports and evaluates the performance of its operating segments on the basis of revenues and income (loss) before income taxes. In measuring revenues and income (loss) before income taxes, the Company's operating segments use the same accounting principles described in Note A of Notes to Condensed Consolidated Financial Statements. However, the revenues and income (loss) before income taxes reported by each of the Company's operating segments is not necessarily indicative of what the results of operations would have been for such operating segment had it operated as a stand-alone entity.

ZoomLot's potential for future profitability must be considered in light of the risks, uncertainties, expenses and difficulties frequently encountered by companies in the early stages of development, particularly companies in new and rapidly evolving markets, such as the market for Web-based business to business e-commerce. To achieve profitability, ZoomLot must, among other things, continue to expand the number of dealers it serves and be successful in being chosen by those dealers to place a high percentage of the total contracts they sell, continue to expand the participation of finance companies in its program, and maintain a high degree of dealer and finance company satisfaction. Achieving these objectives will depend significantly on the successful completion of the development of the FundHere(TM) Aggregator and the subsequent successful introduction of this technology to dealers and finance companies, as well as success in providing dealers with easy use of the program through integration into a dealer management system or through ZoomLot's web site and success in responding to other competitive developments. As a result of the newness of ZoomLot's operations and its continued development efforts, ZoomLot's historical results are not indicative of future results of operations, and ZoomLot may be expected to continue to operate at a loss in the near term.

Throughout the first quarter of fiscal 2002 and as of May 31, 2001, the Company had no external source of financing, and has operated on the cash balances created by the sale of loans and the proceeds from the sale of property in fiscal 2001. The Company plans to pursue new debt, or equity financing, for use in funding its strategic business alternatives, including but not limited to the purchase of one or more existing operating businesses or the entry into one or more businesses, but the early development stage of the Company's most significant currently operating business, the ZoomLot e-commerce segment, and the Company's pending regulatory investigations may limit its ability to obtain external financing. In the interim, the Company will use the current income derived from its investment in AFC, the investment of its cash, together with the cash and cash equivalents itself, to pay operating expenses and existing liabilities. The Company has available cash and cash equivalents and marketable securities of approximately $10,000,000 at May 31, 2001, and it believes that such cash and cash equivalents and the investment income therefrom will be sufficient to pay operating expenses and existing liabilities.

The Securities and Exchange Commission, the United States Attorney for the Northern District of Ohio, and the Federal Bureau of Investigation are investigating the issues raised as the result of the resignation of Deloitte & Touche on January 16, 1998. The Company is fully cooperating with the investigations. Although the Company has accrued certain costs it expects to incur in responding to the investigations, the ultimate outcome of these investigations cannot presently be predicted and the Company has not recorded any provision for any monetary penalties that may result from civil or criminal proceedings that might be commenced at the conclusion of such investigations. The Company's liquidity will be adversely affected as it incurs costs to respond to the investigations. An unfavorable resolution of any of these investigations could have a material adverse effect on the Company's financial position, results of operations and liquidity.

RESULTS OF OPERATIONS

INTEREST INCOME FROM LOANS: The Company's loan investments resulted from purchases of installment loans at discounts from the face or contractual amount. Those discounts reflected both (i) an element of interest income that the Company sought to earn on its investment in the loans, and (ii) the Company's assessment, at the time of purchase, that a portion of the loans it purchased were impaired in that the loans would not be repaid in accordance with their contractual terms.

The Company sold its loan investments during the first quarter of fiscal 2001, and as a result, the Company had no interest income from loans for the three months ended April 30, 2001. Interest income from loans was $404,000 for the three months ended April 30, 2000.

INTEREST INCOME FROM INVESTMENTS: Interest income from investments is principally the interest earned on the Company's investments in marketable securities, commercial paper and money market accounts. Interest income from these investments decreased to $140,000 for the three months ended April

30, 2001 as compared to $980,000 for the same period in fiscal 2001. The decrease was primarily due to a decrease in the weighted average investment balances to $9,662,000 for the three months ended April 30, 2001, from $65,203,000 for fiscal 2001. The Company's investments decreased in fiscal 2002 due to the use of its cash equivalents and investments to fund the repurchases of Company stock, totaling approximately $52 million, during the fourth quarter of fiscal 2001.

INCOME FROM AFC INVESTMENT: The Company accounts for its investment in AFC using the equity method, and the $86,000 reported as the income from the investment in AFC represents the Company's share of AFC's net income for the three months ended March 31, 2001 less the amortization of the goodwill recorded by the Company on its investment.

The following sets forth summarized operating results for AFC (in thousands):

	Three Months Ended March 31, 2001	2000
Revenues	$ 2,035	$ 1,429
Film rental	742	435
Operating costs	742	591
Depreciation and amortization	173	173
General and administrative expenses	70	38
	1,727	1,237
Net income	$ 308	$ 192

AFC's revenues increased from the three months ended March 31, 2000 to the three months ended March 31, 2001 as the result of an increase in attendance. The attendance at AFC will vary depending on audience interest in, and the popularity of the films it exhibits, and other factors. Rental and operating expenses for the period ended March 31, 2001 as compared to March 31, 2000, as a percentage of revenue remained fairly constant at approximately 71%. However, operating costs decreased as a percent of revenue offset by a corresponding increase in film rental expense.

E-COMMERCE REVENUE: ZoomLot's revenues for the three months ended April 30, 2001 were $226,000. No revenues for ZoomLot are included in the results of operations for the three months ended April 30, 2000 as ZoomLot was not acquired until the fourth quarter of fiscal 2001.

ZoomLot's services facilitate the process by which used car dealerships, lenders and insurance companies communicate and complete the transactions between them that are needed to provide the used car dealer's customers with financing, insurance, and other services. ZoomLot's service of matching contracts submitted by dealers wishing to sell contracts which were retained by them upon the sale of a vehicle against the underwriting criteria of finance companies, and then submitting those contracts that meet the underwriting criteria to the appropriate finance companies, is commonly referred to as "contract aggregation". However, ZoomLot does not warehouse or pool purchased contracts for resale, but rather either merely facilitates a finance company's purchase of a contract from the dealer, or purchases contracts from dealers for immediate pre-arranged resale. As a result, the Company does not assume credit risk with respect to the contracts.

ZoomLot currently has two means by which it provides this contract aggregation service. Under the Pass-Through program, ZoomLot's responsibility is to filter the contract information provided by the dealer against the criteria established by the participating finance companies. ZoomLot then transmits the contract information to each of the finance companies whose contracts satisfy the underwriting criteria. If the contract is sold, ZoomLot receives a fixed fee from the purchasing finance company. In addition, ZoomLot operates a Private Label program whereby it acquires contracts on behalf of two finance companies subject to their underwriting criteria. Under the Private Label program, ZoomLot will underwrite a contract that is submitted by a used car dealer subject to the criteria established by the participating finance companies. If the contract meets their criteria, ZoomLot will then place a bid based

on the finance company's pricing model with the dealer to purchase the contract. If the bid is accepted, ZoomLot then performs certain verification procedures related to the underlying customer and if the requisite information is deemed to be satisfactory, it will acquire the contract from the dealer. The finance company then repurchases the contract from ZoomLot for the amount ZoomLot paid for the contract plus a fee for acquiring the Contract. For the three months ended April 30, 2001, the average revenue per contract was approximately $300.

In addition, ZoomLot generates additional revenue by marketing insurance and warranty products to automobile dealers for purchase by their customers. ZoomLot receives referral or placement fees from the companies selling the respective products. All responsibility and liability for the servicing and administration of the insurance policies and warranties as well as the payment of insurance claims, repair costs and other claims is assumed by the companies issuing the products or third party insurers. As of April 30, 2001, the Company has not generated any significant revenues from these sources.

PROVISION FOR CREDIT LOSSES: As a result of the sale of the Company's investment in loans during fiscal 2001, the Company continues to record reversals into income of previously recorded credit losses due to the cash receipts collected on loans previously charged-off. During the first three months of fiscal 2002, the Company recorded a reversal into income of previously recorded credit losses of $393,000. The Company has completed the sale of substantially all of its remaining charged-off portfolio and expects that in the future collections from charged-off loans will decline significantly.

Prior to the sale of its loans, the Company's methodology for determining the allowance for credit losses was to assess the recoverability of its loans investments on the basis of the present value of the expected future cash flows. The Company recorded a reversal into income of previously recorded credit losses of $856,000 during the first three months of fiscal 2001.

OPERATING EXPENSES: Operating expenses include personnel costs, amortization of goodwill, rent, advertising and internet technology related expenses. Operating expenses increased 33% to $1,703,000 for the first three months of fiscal 2002 from $1,283,000 for the first three months of fiscal 2001. As a percentage of revenues, operating expenses increased to 377% for the first three months of fiscal 2002 from 86% for the first three months of fiscal 2001, primarily due to the reduction in revenues.

Operating expenses for fiscal 2002 are costs relating to ZoomLot. Personnel costs and amortization of goodwill comprise approximately 70% of operating expenses after the effect of $221,000 paid to ZoomLot by Cygnet Dealer Finance ("CDF"). ZoomLot was originally a division of CDF, and ZoomLot and CDF continue to share common personnel and facilities. ZoomLot receives a monthly fee from CDF for performing management services and to reimburse ZoomLot for the costs incurred to administer the CDF operations.

ZoomLot is currently developing the FundHere(TM) Aggregator. The successful completion and implementation of this software is paramount to the future success of ZoomLot. The successful completion of the FundHereTM Aggregator would allow ZoomLot to automate much of the communication and filtration process it must now perform manually, and would allow ZoomLot to realize significant improvement in operating efficiencies and lower its variable costs for each contract submitted by dealers. Should ZoomLot be unable to successfully complete the development of the FundHere(TM) Aggregator, or upon its completion fail to realize the anticipated benefits it may be difficult for ZoomLot to achieve profitability. Until ZoomLot completes the development of the FundHere(TM) Aggregator it will incur expenses for the development of the software and will have higher variable costs, both of which will adversely affect its results of operations.

Operating expenses for the three months ended April 30, 2000 of $1,283,000 included expenses related to the automobile finance segment that sold its loan portfolio during the first quarter of fiscal 2001.

GENERAL AND ADMINISTRATIVE: General and administrative expenses include costs of executive, accounting, and legal personnel, occupancy, legal, professional, insurance, and other general corporate overhead costs. General and administrative expenses increased to $1,436,000 for the first three months of

fiscal 2002 from $1,225,000 for the first three months of fiscal 2001, and increased as a percentage of revenues, due to the decline in revenues, to 318% for the first three months of fiscal 2002 from 82% for the first three months of fiscal 2001.

General and administrative expenses are more fixed in nature than operating expenses and are not expected to vary as directly with revenues. The increase in general and administrative costs in the first quarter fiscal 2002 as compared to 2001, was primarily due to an increase in personnel costs.

LITIGATION AND OTHER CHARGES: Following the resignation of Deloitte & Touche LLP, the Company instituted investigations of its previous financial reporting and underwent changes in management. In fiscal 1998, the Company accrued initial estimates of certain resulting costs, and additional costs in excess of those initial estimates were expensed as incurred or as such estimates were revised. In the first quarter of fiscal 2001, the Company accrued an initial estimate of approximately $3,000,000 for the costs incurred in the litigation with Mr. Frankino that commenced in April 2000 and ultimately settled in November 2000.

INCOME TAXES: Due to net operating losses and the availability of net operating loss carryforwards, the Company's effective income tax rate was zero for the three month period ended April 30, 2001 and April 30, 2000. The Company has provided a full valuation allowance against its net operating loss carryforward and other net deferred tax asset items due to the uncertainty of their future realization.

LIQUIDITY AND CAPITAL RESOURCES

During the first three months of fiscal year 2002, the Company used $2,766,000 from operating activities as the Company's payments for operating and general and administrative expenses continue to exceed revenues from operations. The Company generated $813,000 in cash flows from investing activities principally as the result of $313,000 of cash flows from the sales of loans, and $456,000 generated from the reduction in ZoomLot's contracts in progress, which represent the contracts ZoomLot is temporarily holding under its Private Label program. The cash flows generated by these sources were used to partially offset the negative operating cash flows and retain a cash balance of $10,375,000 at April 30, 2001.

During the first three months of fiscal year 2001, the Company used

$4,255,000 from operating activities as the Company's payments for operating and general and administrative and litigation and other expenses continued to exceed interest income from the declining portfolio balance. The Company generated $6,278,000 in cash flows from investing activities principally as the result of $23,294,000 of cash flows from the sales of loans and a net (of sales) of $20,107,000 of the proceeds invested in marketable securities. The cash flows generated by these sources were used to finance the negative operating cash flows and retain a cash balance of $56,343,000 at April 30, 2000.

The Company believes that the cash and cash equivalents and marketable securities of approximately $10,000,000 at May 31, 2001, and the investment income therefrom will be sufficient to pay operating expenses, existing liabilities, including costs associated with pending civil litigation and investigations, and fund its activities through January 31, 2002. The Company estimates the capital requirements to fund ZoomLot operations and investments in software and computer equipment may total approximately $6,500,000 for the year ending January 31, 2002, of which, $2,000,000 has already been funded. Additionally, as previously discussed, the Company's lack of external financing sources may limit its ability to pursue strategic business alternatives being considered by the Company's Board of Directors. Such limitations may have an adverse impact on the Company's financial position, results of operations and liquidity.

OTHER

The Company's exposure to the risks of inflation is generally limited to the potential impact of inflation on the operating and general and administrative expenses. To date, inflation has not had a material adverse impact on the Company.

The Company does not utilize futures, options or other derivative financial instruments.

FORWARD-LOOKING STATEMENTS

Various statements made in this Item 2 concerning the manner in which the Company intends to conduct its future operations, and potential trends that may impact its future results of operations, are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. The Company may be unable to realize its plan and objectives due to various important factors, including, but not limited to, the failure of the Board of Directors to promptly determine what strategic business plan the Company should pursue, the failure of the Company to implement any such plan due to its inability to identify suitable acquisition candidates or its inability to obtain the financing necessary to complete any desired acquisitions or any adverse action taken by the Securities and Exchange Commission that impedes the ability of the Company to pursue any desired plan of action. In addition, ZoomLot's operations are subject to certain risk factors. Also see Item 1 - "Business" - E-Commerce Business - Summary of Certain Risk Factors Related to ZoomLot's Business in the Company's Annual Report on Form 10-K for the year ended January 31, 2001.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Like virtually all commercial enterprises, the Company can be exposed to the risk ("market risk") that the cash flows to be received or paid relating to certain financial instruments could change as a result of changes in interest rate, exchange rates, commodity prices, equity prices and other market changes.

The Company does not engage in trading activities and does not utilize interest rate swaps or other derivative financial instruments or buy or sell foreign currency, commodity or stock indexed futures or options. Accordingly, the Company is not exposed to market risk from these sources.

The Company's loan portfolio was comprised of fixed rate financing agreements with high credit risk consumers. The rates on these loan agreements cannot be increased for changes in market conditions, and accordingly these loans were not subject to market risk.

As of April 30, 2001, the Company has no interest bearing debt, and accordingly no market risk associated with increases in interest costs resulting from changes in market rates.

PART II. OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

a) Exhibits

10.1 Amendments to Financial Advisory and Management Consulting Agreement between NAC and Robert B. Dixon dated as of April 1, 2001 filed herewith and incorporated herein by reference. *

10.2 Separation agreement from NAC for Sean P. Maroney dated as of April 25, 2001 filed herewith and incorporated herein by reference.

10.3 Separation agreement from NAC for Raymond A. Varcho dated as of April 25, 2001 filed herewith and incorporated herein by reference.

b) Reports on Form 8-K

On March 2, 2001, a form 8-K/A was filed regarding the Merger Transaction with ZoomLot.

* Employment Agreement

17

20

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

NATIONAL AUTO CREDIT, INC.

Date: June 14, 2001

By: /s/ James J. McNamara

James J. McNamara
Chairman of the Board and Chief Executive Officer

By: /s/ Robert B. Dixon

Robert B. Dixon
Chief Financial Officer

18

ntegration and assist with the transition process upon completion of the transaction. Many decisions will not be determined until we move closer to completing the transaction.

9. What will happen to MetroPCS' headquarters?

After closing, the combined company's headquarters will be in Bellevue, Washington and T-Mobile will retain a significant presence in Dallas, Texas.

10. When will the transaction be completed? What needs to happen before the transaction can close?

We expect the transaction to be completed in the first half of 2013, subject to approval by MetroPCS stockholders, regulatory approvals and other customary closing conditions. Until the transaction closes, MetroPCS and T-Mobile will continue to operate as independent companies and compete vigorously - today's announcement will have no impact on our day-to-day operations and it remains business as usual at MetroPCS.

11. Will salaries and benefits be affected? Will my 401k or healthcare benefits change?

It is still very early in this process and many compensation and benefit matters will be determined near or after closing of the transaction. Until the transaction is completed, MetroPCS and T-Mobile remain independent companies, and it is business as usual for all of us.

As soon as possible, we intend to form an integration team comprised of senior executives from both companies to plan the integration and assist with the transition process upon completion of the transaction.

12. What will happen to MetroPCS stock options?

Upon completion of the transaction, all stock options and restricted stock awards will vest. All stock options will remain in effect following the consummation of the transaction. At closing, you will also be given an opportunity to cash out any options unless the exercise price of the stock is more than the market price of the stock prior to the close.

We expect to have more details on stock options and restricted stock, and we will continue to communicate as we move forward with this process.

13. Will MetroPCS continue to be publicly traded on the New York Stock Exchange? Will the ticker symbol change?

MetroPCS will remain listed on the NYSE, however, our ticker symbol may change to reflect the newly formed company, to be called T-Mobile.

14. What do I tell customers if they ask about today's announcement?

We hope our customers will share our excitement about this transaction.

As MetroPCS customers, over time they will enjoy a richer experience. Through the convergence of both companies to LTE technology, the combined company will have an enhanced 4G LTE network and we will be able to accelerate our growth of 4G LTE, which provides the potential to offer 4G LTE over at least a full 20x20MHz in many metro areas.

Additionally, we will be able to offer a wider selection of attractive, competitively priced plans to better serve customers, including contract, no-contract monthly, SIM-only, pay-as-you-go and mobile broadband plans. This means more options and better service and coverage for our customers.

15. What should I say if I'm contacted by media, financial community or other third parties about the transaction?

If you receive any inquiries from investors, media or other interested parties, please do not attempt to answer any questions. Instead, refer them to Keith Terreri, Vice President Finance & Treasurer at (214) 570-4641.

16. What do I tell my dealer principal?

We are excited about the spectrum, scale and opportunities for expansion of the business model that this combination provides MetroPCS. This combination also provides us the opportunity to offer customers a wider selection of affordable products and services, deeper network coverage and a clear-cut technology path to one common 4G LTE network to attract new and retain existing customers.

We are confident that as a combined company we will be able to compete more effectively with the other national U.S. wireless carriers and continue to grow in fast growing no-contract services.

We expect more details to become available shortly, and we will continue to communicate as we move forward with this process.

17. When will I know more about the progress of the transaction?

While we are still in the early stages of this process, we will continue to keep you informed as we move forward. As we move through this process, we'll continue to rely on you to focus on the work at hand, serve our partners and customers, and help achieve our goals.

We will make every effort to keep you up to date on developments and progress throughout this process.

Additional Information and Where to Find It

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Participants in the Solicitation

MetroPCS and its directors and executive officers will be deemed to be participants in any solicitation of proxies in connection with the proposed transaction. Information about MetroPCS' directors and executive officers is available in MetroPCS' proxy statement dated April 16, 2012 for its 2012 Annual Meeting of Stockholders. Other information regarding the participants in the proxy solicitation and a description of their direct and indirect interests, by security holdings or otherwise, will be contained in the proxy statement and other relevant materials to be filed with the SEC regarding the proposed transaction when they become available. Investors should read the proxy statement carefully when it becomes available before making any voting or investment decisions.

Cautionary Statement Regarding Forward-Looking Statements

This question and answer document includes “forward-looking statements” for the purpose of the “safe harbor” provisions within the meaning of the Private Securities Litigation Reform Act of 1995, as amended. Any statements made in this question and answer document that are not statements of historical fact, including statements about our beliefs, opinions, projections, and expectations, are forward-looking statements and should be evaluated as such. These forward-looking statements often include words such as “anticipate,” “expect,” “suggests,” “plan,” “believe,” “intend,” “estima “targets,” “views,” “projects,” “should,” “would,” “could,” “may,” “become,” “forecast,” and other similar expressions. All forward-looking statements involve significant risks and uncertainties that could cause actual results to differ materially from those in the forward-looking statements, many of which are generally outside the control of MetroPCS, Deutsche Telekom and T-Mobile USA, Inc. (“T-Mobile”) and are difficult to predict. Examples of such risks and uncertainties include, but are not limited to, the possibility that the proposed transaction is delayed or does not close, including due to the failure to receive the required stockholder approvals or required regulatory approvals, the taking of governmental action (including the passage of legislation) to block the transaction, the failure to satisfy other closing conditions, the possibility that the expected synergies will not be realized, or will not be realized within the expected time period, the significant capital commitments of MetroPCS and T-Mobile, global economic conditions, fluctuations in exchange rates, competitive actions taken by other companies, natural disasters, difficulties in integrating the two companies, disruption from the transaction making it more difficult to maintain business and operational relationships, actions taken or conditions imposed by governmental or other regulatory authorities and the exposure to litigation. Additional factors that could cause results to differ materially from those described in the forward-looking statements can be found in the Company's 2011 Annual Report on Form 10-K and Quarterly Report on Form 10-Q for the quarter ended June 30, 2012 and other filings with the SEC available at the SEC's website (www.sec.gov).

The forward-looking statements speak only as to the date made, are based on current assumptions and expectations, and are subject to the factors above, among others, and involve risks, uncertainties and assumptions, many of which are beyond our ability to control or ability to predict. You should not place undue reliance on these forward-looking statements. MetroPCS, Deutsche Telekom and T-Mobile do not undertake a duty to update any forward-looking statement to reflect events after the date of this question and answer document, except as required by law.

October 3, 2012

Dear [NAME / Dealer]:

Today marks an important milestone in MetroPCS' history and an exciting, positive step for our company. This morning we announced that MetroPCS has entered into a definitive agreement to combine our business with T-Mobile USA. This combination will create the leading value carrier in the U.S. wireless marketplace, which will deliver an enhanced customer experience through a wider selection of affordable products and services, deeper network coverage and a clear-cut technology path to one common 4G LTE network. Attached for your convenience is a copy of the press release we issued this morning.

What This Means for MetroPCS, Our Distributors, Partners and Vendors

As you know, T-Mobile, a subsidiary of Deutsche Telekom, is a leading telecommunications company that offers a range of wireless services to consumer, business and government customers. The combined company will be a stronger competitor and will be well-positioned to drive future growth, with approximately 42.5 million subscribers.

Together, we will have the expanded scale, spectrum and financial resources to aggressively compete with the other national U.S. wireless carriers. Importantly, our enhanced spectrum position will be the foundation for a faster and more reliable network. Through the convergence of both companies to LTE technology, the combined company will provide cutting-edge 4G LTE services and accelerate its roll-out of 4G LTE. In addition, this combination will allow MetroPCS to expand its no-contract offerings and enhance our combined spectrum portfolio, which provides the potential to offer 4G LTE over at least a full 20x20 MHz in many metro areas.

We believe this is a compelling transaction. Together, we are confident that we will drive growth through our increased scale and enhanced customer value and choice. We will have the opportunity to execute our strategy on a larger scale and strengthened distribution network. Combining the MetroPCS and T-Mobile brands means more options and better service and coverage for our customers, which we believe will create potential opportunities for our partners by offering a full range of products and services.

What Happens Next

The transaction is expected to be completed in the first half of 2013, subject to stockholder and regulatory approvals. Upon completion, the newly formed company will be called T-Mobile, and will continue to operate T-Mobile and MetroPCS as separate customer units.

Until that time, MetroPCS and T-Mobile will be, and continue to operate as, independent companies and compete vigorously - today's announcement will have no impact on our day-to-day operations, and it remains business as usual at MetroPCS. We don't expect this transaction will have any immediate impact on our business plans and engagements. Additionally, we expect to continue our current local distribution strategies, allowing us to maintain our operations and minimize disruption. Our commitment to our customers is unwavering, and we recognize the importance of our partners in ensuring that we achieve success.

Deutsche Telekom and T-Mobile have announced publicly that they intend to grow the MetroPCS brand, both through extension into new geographic areas and through the introduction of a broader product portfolio into our existing network. As with any transaction of this size, there may be some overlap in our distribution footprint, but we feel confident that this transaction represents a growth opportunity for MetroPCS and its partner community. While we can't predict the exact operational outcome at this stage, as soon as possible we intend to form an integration team comprised of senior executives from both companies to plan the integration and assist with the transition process.

Upon completion of the combination, we will have a seasoned management team with significant industry experience that will be making the best decisions for our combined company and stakeholders going forward. Following the close, John Legere, currently President and CEO of T-Mobile USA will serve as President and CEO of the combined company. Our CFO and Vice Chairman, Braxton Carter, will serve as the CFO of the combined company. Our President and COO, Tom Keys, will become COO of the MetroPCS Customer Unit, and Jim Alling, COO of T-Mobile USA, will remain in the position of COO for the T-Mobile Customer Unit.

As we move through this process, we will continue to keep you updated on important developments. As always, if you have any questions please do not hesitate to reach out to your usual MetroPCS contacts.

We value our relationship with you and appreciate your continued support. We look forward to continuing to work together to meet and exceed our customers' expectations.

Sincerely,

[NAME]

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MetroPCS Dealer FAQ

1. What was announced today?

- Today we announced that MetroPCS has entered into a definitive agreement to combine with T-Mobile USA to create the leading value carrier in the U.S. wireless marketplace.
- This combination will deliver an enhanced customer experience through a wider selection of affordable products and services, deeper network coverage and a clear-cut technology path to one common 4G LTE network.
- The combined company, which will be called T-Mobile, will have the expanded scale, spectrum and financial resources to aggressively compete with the other national U.S. wireless carriers.
- The newly formed company will continue to operate MetroPCS and T-Mobile as separate customer units.
- We expect to complete the combination in the first half of 2013, subject to MetroPCS stockholder approval, regulatory approvals and other customary closing conditions.

2. What are the terms of the agreement?

- The agreement, which has been approved by Deutsche Telekom's Supervisory Board and MetroPCS' Board of Directors, is structured as a recapitalization, in which MetroPCS will declare a 1 for 2 reverse stock split, make a cash payment of $1.5 billion to its stockholders, or approximately $4.09 per share prior to the reverse stock split, and acquire all of T-Mobile's capital stock by issuing to Deutsche Telekom 74% of MetroPCS' common stock on a pro forma basis. Upon completion of the combination, MetroPCS stockholders will own 26% of the combined company.

3. Will distributors and partners be affected by the combination with T-Mobile? Will MetroPCS continue to use the same distributors and partners following completion of the transaction?

- While there are still many details to be worked through, we anticipate that, over time, our partners will generally benefit from an expanded set of products and services.
- Deutsche Telekom and T-Mobile have announced publicly that they intend to grow the MetroPCS brand, both through extension into new geographic areas and through the introduction of a broader product portfolio into our existing network.
- We don't expect this transaction will have any immediate impact on our business plans and engagements.
- Additionally, we expect to continue our current local distribution strategies, allowing us to maintain our operations and minimize disruption.
- As with any transaction of this size, there may be some overlap in our distribution footprint, but we feel confident that this transaction represents a growth opportunity for MetroPCS and its partner community.
- While we can't predict the exact operational outcome at this stage, as soon as possible we intend to form an integration team comprised of senior executives from both companies to plan the integration and assist with the transition process upon completion of the transaction.
- Our commitment to our customers is unwavering, and we recognize the importance of our partners in ensuring that we achieve success.

4. My company supplies both MetroPCS and T-Mobile. How does this affect my operations?

- While there are still many details to be worked through, we anticipate that, over time, our partners will generally benefit from an expanded set of products and services.
- Deutsche Telekom and T-Mobile have announced publicly that they intend to grow the MetroPCS brand, both through extension into new geographic areas and through the introduction of a broader product portfolio into our existing network.
- We don't expect this transaction will have any immediate impact on our business plans and engagements.
- Additionally, we expect to continue our current local distribution strategies, allowing us to maintain our operations and minimize disruption.
- As with any transaction of this size, there may be some overlap in our distribution footprint, but we feel confident that this transaction represents a growth opportunity for MetroPCS and its partner community.
- While we can't predict the exact operational outcome at this stage, as soon as possible we intend to form an integration team comprised of senior executives from both companies to plan the integration and assist with the transition process upon completion of the transaction.
- Our commitment to our customers is unwavering, and we recognize the importance of our partners in ensuring that we achieve success.

5. Do current partnership agreements and contracts remain in place?

- Until the transaction is complete, which is expected in the first half of 2013, subject to MetroPCS stockholder approval, regulatory approvals and other customary closing conditions, MetroPCS and T-Mobile will be, and continue to operate, as independent companies and continue to compete vigorously - today's announcement will have no impact on our day-to-day operations.
- We don't expect the announcement of this transaction will have any immediate impact on our business plans and engagements.

6. I have a contract that will expire before the merger closes. Should I renew it? How do I go about renewing it?

- You should continue to follow normal procedures. Additional information will be available over the coming months as we near completion of the transaction.

7. I have a contract that extends through the period when the merger is expected to close. Will it have to be changed to include the newly formed company as the contracting party?

- Generally, no. The newly formed company, which will be called T-Mobile, will generally by way of the merger assume all assets and obligations of MetroPCS and automatically become the contracting party under our distributor contracts. If your contract needs to be amended to include the newly formed company as contracting party after the closing, we will contact you in due course.

8. I have a lease coming due before the transaction closes. Should I renew my lease?

- I'm not qualified to provide specific business advice with regard to your property leases. Please consult with your advisors.
- What I can tell you is that, until the transaction is complete, which is expected in the first half of 2013, MetroPCS and T-Mobile will be, and continue to operate as, independent companies and continue to compete vigorously - today's announcement will have no impact on our day-to-day operations.
- We don't expect this transaction will have any immediate impact on our business plans and engagements.

9. Where can I find additional information?

- As we move through this process, we will continue to keep you updated on important developments.
- If you have any questions please do not hesitate to reach out to your usual MetroPCS contacts.

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October 3, 2012

To our Valued MetroPCS Customers:

Today marks an important milestone in MetroPCS' history and an exciting, positive step for our company. This morning we announced that MetroPCS has entered into a definitive agreement to combine our business with T-Mobile USA. The combined company will be called T-Mobile, and will continue to operate MetroPCS and T-Mobile as separate customer units.

This combination will create the leading value carrier in the U.S. marketplace that we believe will deliver a better experience for our customers.

This can be accomplished through a wider selection of affordable products and mobile services, while leveraging the latest 4G mobile technologies, deeper network coverage and a clear-cut technology path to one common 4G LTE network. On our website you will find a copy of the press release we issued, along with a list of frequently asked questions at http://www.metropcs.com/metro/aboutus/.

What This Means for MetroPCS and Our Customers

T-Mobile, a subsidiary of Deutsche Telekom, is a leading telecommunications company that offers a range of wireless services to consumer, business and government customers.

Through this combination, we expect to improve mobile experiences by:

- Creating a faster, broader, higher capacity 4G network;
- Offering wider handset choice and lower costs by building on our combined portfolio of cutting-edge products and mobile services; and
- Enhancing our national footprint and offering international roaming options.

Deutsche Telekom and T-Mobile have announced publicly that they intend to grow the MetroPCS brand, both through extension into new geographic areas and through the introduction of a broader product portfolio into our existing network. Importantly, MetroPCS and T-Mobile have the same network strategies and LTE networks in the same spectrum bands, which we believe will accelerate the deployment of advanced services to our customers.

In short, this transaction is expected to offer you a wider selection of affordable handset products and services, and broader and deeper network coverage - in even more cities!

What Happens Next

We believe this combination will best position MetroPCS for long-term success, supported by the best talent in the industry. However, until the transaction is complete, MetroPCS and T-Mobile will be, and continue to operate as, independent companies.

Our commitment to you is unwavering, and we will continue to be the nation's leading provider of no annual contract, unlimited, flat-rate wireless communications services. Rest assured, we will continue to work hard to exceed your expectations.

We encourage you to read the list of frequently asked questions (FAQs) posted on our website. Of course, if you have further questions, please feel free to visit your local authorized MetroPCS dealer.

We appreciate your business and thank you for your continued support of MetroPCS!
Sincerely,

Roger Linquist
CEO and Chairman, MetroPCS

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MetroPCS Talking Points for Customer-Facing Employees

What We Announced

- [This morning / On DATE], MetroPCS announced that it has entered into a definitive agreement to combine with T-Mobile USA. This is an exciting announcement for MetroPCS that we believe will deliver a better experience for our customers.

- T-Mobile, a subsidiary of Deutsche Telekom, is a leading telecommunications company that offers a range of wireless services to consumer, business and government customers.

- The combined company will create a new company be called T-Mobile, and will continue to operate MetroPCS and T-Mobile as separate customer units.

What This Means for Customers

- We believe this combination will best position MetroPCS for long-term success, supported by the best talent in the industry.

- The combined company will be the value leader in wireless with the scale, spectrum, and financial and other resources to expand its geographic coverage, broaden choice among all types of customers and continue to innovate.

- We expect to improve your mobile experience by creating a faster, broader, higher capacity 4G network and offering wider handset choice and lower costs by building on our combined portfolio of cutting-edge products and services. In addition, this combination will enhance our national footprint, and allow us to offer international roaming options.

- Deutsche Telekom and T-Mobile have announced publicly that they intend to grow the MetroPCS brand, both through extension into new geographic areas and through the introduction of a broader product portfolio into our existing network.

- MetroPCS and T-Mobile have the same network strategies and LTE networks in the same spectrum bands, which we believe will accelerate the deployment of advanced services to our customers.

- In short, we will be able to offer customers a wider selection of affordable handset products and services and leverage the latest 4G mobile technologies, deeper network coverage and a clear-cut technology path to one common LTE network- in even more cities. This means more options and better service and coverage for our customers.

- Above all, we will continue the superior level of customer service you have come to expect from MetroPCS.

Next Steps

- We expect to complete the transaction in the first half of 2013.

- Until then, MetroPCS and T-Mobile will be, and continue to operate as, independent companies and competitors - there will be no change in our day-to-day operations. It is business as usual.

- There will be no impact on the service you have come to rely on, the wireless network coverage you need or any of the products or services we offer.

- Our commitment to you is unwavering, and we will continue to be the nation's leading provider of no annual contract, unlimited, flat-rate wireless communications service.

- Rest assured, we will continue to work hard to meet and exceed your expectations.

Closing

- If you have any questions, please feel free to reach out. You may also visit our website at www.MetroPCS.com or visit any authorized MetroPCS dealer.

- We appreciate your business and thank you for your continued support of MetroPCS!

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MetroPCS - Potential Customer Questions

1. What was announced today?

- Today we announced that MetroPCS has entered into a definitive agreement to combine our business with T-Mobile USA to create the leading value carrier in the U.S. wireless marketplace.
- This combination will deliver a better experience for our customers through a wider selection of affordable products and services, while leveraging the latest 4G mobile technologies, deeper network coverage and a clear-cut technology path to one common 4G LTE network.
- Upon completion of the transaction, which we expect to occur in the first half of 2013, MetroPCS and T-Mobile USA will create a new company that will be called T-Mobile, which will continue to operate MetroPCS and T-Mobile as separate customer units.

2. How does this transaction benefit MetroPCS customers?

- We believe that this combination will best position MetroPCS for long-term success, supported by the best talent in the industry.
- We are confident that, through this combination, we can offer customers a wider selection of affordable products and services, deeper network coverage and a clear-cut technology path to one common 4G LTE network - in even more cities. We expect to improve your mobile experience by:
- Creating a faster, broader, higher capacity 4G network ;
- Offering wider handset choice and lower costs by building on our combined portfolio of cutting-edge products and services; and
- Enhancing our national footprint, and offering international roaming options
- Deutsche Telekom and T-Mobile have announced publicly that they intend to grow the MetroPCS brand, both through extension into new geographic areas and through the introduction of a broader product portfolio into our existing network. Importantly, MetroPCS and T-Mobile have the same network strategies and LTE networks in the same spectrum bands, which we believe will accelerate the deployment of advanced services to our customers.

3. Will the MetroPCS name or branding change?

- Upon completion of the combination, the new combined company will be called T-Mobile, and will continue to operate MetroPCS and T-Mobile as separate customer units.
- Deutsche Telekom and T-Mobile have announced publicly that they intend to grow the MetroPCS brand, both through extension into new geographic areas and through the introduction of a broader product portfolio into our existing network.

4. When will the transaction be completed? What can customers expect in the interim?

- We expect the transaction to be completed in the first half of 2013, subject to approval by MetroPCS stockholders, regulatory approvals and other customary closing conditions. Until the transaction closes, MetroPCS and T-Mobile will be, and continue to operate as, independent companies.
- Our commitment to you is unwavering, and we will continue to be the nation's leading provider of no annual contract, unlimited, flat-rate wireless communications services. Rest assured that we will continue to work hard to exceed your expectations.

5. Will my coverage, reception or service change as a result of this announcement? Will MetroPCS continue to offer prepaid, flat-rate and no contract services?

- Your service, reception and coverage will not change as a result of this announcement. Our commitment to you is unwavering, and we will continue to be the nation's leading provider of no annual contract, unlimited, flat-rate wireless communications services. Rest assured, we will continue to work hard to exceed your expectations.
- Keep in mind that, until the transaction is completed, MetroPCS and T-Mobile will be, and continue to operate as, independent companies.
- Through this combination, we expect to offer a wider selection of affordable products and services, while leveraging the latest 4G mobile technologies, deeper network coverage and a clear-cut technology path to one common 4G LTE network.

6. Can I still use my current cell phone?

- The cell phone you currently use with MetroPCS will continue to function and receive a signal as it always has.

7. Will you be changing the cell phones covered under the MetroPCS network?

- As part of this transaction, we expect to offer a wider selection of affordable products and services, while leveraging the latest 4G mobile technologies, deeper network coverage and a clear-cut technology path to one common 4G LTE network, which means more options for our customers.

8. Where can I find additional information?

- As we move through this process, we will continue to keep you updated on important developments. We value our relationship with you and appreciate your business. If you have further questions, please feel free to contact or visit any MetroPCS store location.

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