LEAP WIRELESS INTERNATIONAL INC
Form 10-Q/A
December 26, 2007

Table of Contents

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

FORM 10-Q/A
(Amendment No. 1)

(Mark One)

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended June 30, 2007
OR

o **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: 0-29752

Leap Wireless International, Inc.
(Exact name of registrant as specified in its charter)

Delaware **(State or other jurisdiction of incorporation or organization)**	**33-0811062** **(I.R.S. Employer Identification No.)**
10307 Pacific Center Court, San Diego, CA **(Address of principal executive offices)**	**92121** **(Zip Code)**

(858) 882-6000
(Registrant s telephone number, including area code)

Not applicable
(Former name, former address and former fiscal year, if changed since last reported)

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 þ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer **þ** Accelerated filer **o** Non-accelerated filer **o**

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

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes þ No o

The number of shares of registrant s common stock outstanding on December 14, 2007 was 68,207,914.

Table of Contents

EXPLANATORY NOTE

Leap Wireless International, Inc. (the Company) has restated its historical consolidated financial statements as of and for the years ended December 31, 2006 and 2005 (including interim periods therein), for the period from August 1, 2004 to December 31, 2004 (Successor Company) and for the period from January 1, 2004 to July 31, 2004 (Predecessor Company) and its unaudited condensed consolidated financial statements as of and for the quarterly periods ended March 31 and June 30, 2007. This Amendment No. 1 on Form 10-Q/A to the Company s Quarterly Report on Form 10-Q for the quarter ended June 30, 2007 includes restated unaudited condensed consolidated financial statements as of and for the quarter ended June 30, 2007, restated audited consolidated financial statements for the year ended December 31, 2006 and restated unaudited condensed consolidated financial statements for the quarter ended June 30, 2006 previously included in the Company s Quarterly Report on Form 10-Q for the quarter ended June 30, 2007 (the Original Form 10-Q).

These previously issued financial statements of the Company have been restated to correct errors relating to (i) the timing of recognition of certain service revenues prior to or subsequent to the period in which they were earned, (ii) the recognition of service revenues for certain customers that voluntarily disconnected service, (iii) the classification of certain components of service revenues, equipment revenues and operating expenses and (iv) the determination of a tax valuation allowance during the second quarter of 2007. See Note 2 to the Company s unaudited condensed consolidated financial statements included in Part I Item 1. Financial Statements of this report for additional information.

The Company has amended and restated in its entirety each item of the Original Form 10-Q filed with the Securities and Exchange Commission (SEC) on August 9, 2007 (the Original Filing Date) that required a change to reflect this restatement and to include certain additional information. These items include Items 1, 2 and 4 of Part I and Item 1A of Part II. The Company has supplemented Item 6 of Part II to include current certifications of our Chief Executive Officer and Chief Financial Officer pursuant to Sections 302 and 906 of the Sarbanes-Oxley Act of 2002, included as Exhibits 31 and 32 to this Amendment. No other information included in the Original Form 10-Q is amended hereby.

Pursuant to Rule 12b-15 under the Securities Exchange Act of 1934, as amended, this Amendment contains only the items and exhibits to the Original Form 10-Q that are being amended and restated, and those unaffected items or exhibits are not included herein. Except as stated above, this Amendment speaks only as of the Original Filing Date, and this filing has not been updated to reflect any events occurring after the Original Filing Date or to modify or update disclosure affected by other subsequent events. In particular, forward-looking statements included in this Amendment represent management s views as of the Original Filing Date. Such forward-looking statements should not be assumed to be accurate as of any future date. This Amendment should be read in conjunction with the Company s other filings made with the SEC subsequent to the Original Filing Date, together with any amendments to those filings.

As previously disclosed in the Company s Form 8-K filed on November 8, 2007, the Company s unaudited quarterly condensed consolidated financial statements previously included in the Original Form 10-Q should not be relied upon.

LEAP WIRELESS INTERNATIONAL, INC.

QUARTERLY REPORT ON FORM 10-Q/A
(Amendment No. 1)
For the Quarter Ended June 30, 2007

TABLE OF CONTENTS

PART I
FINANCIAL INFORMATION

Item 1. Financial Statements.

LEAP WIRELESS INTERNATIONAL, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except share amounts)

	June 30, 2007 (Unaudited) (As Restated) (See Note 2)	December 31, 2006 (As Restated) (See Note 2)
Assets		
Cash and cash equivalents	$ 326,332	$ 372,812
Short-term investments	357,444	66,400
Restricted cash, cash equivalents and short-term investments	12,747	13,581
Inventories	90,343	90,185
Other current assets	47,608	52,981
Total current assets	834,474	595,959
Property and equipment, net	1,146,402	1,078,521
Wireless licenses	1,857,312	1,563,958
Assets held for sale		8,070
Goodwill	425,782	425,782
Other intangible assets, net	62,965	79,828
Deposits for wireless licenses	758	274,084
Other assets	49,556	58,745
Total assets	$ 4,377,249	$ 4,084,947
Liabilities and Stockholders Equity		
Accounts payable and accrued liabilities	$ 212,633	$ 317,093
Current maturities of long-term debt	9,000	9,000
Other current liabilities	99,027	84,675
Total current liabilities	320,660	410,768
Long-term debt	2,042,249	1,676,500
Deferred tax liabilities	152,030	148,335
Other long-term liabilities	50,041	47,608
Total liabilities	2,564,980	2,283,211

Minority interests		33,948		29,943
Commitments and contingencies (Note 8)				
Stockholders equity:				
Preferred stock authorized 10,000,000 shares; $.0001 par value, no shares issued and outstanding				
Common stock authorized 160,000,000 shares; $.0001 par value, 68,217,849 and 67,892,512 shares issued and outstanding at June 30, 2007 and December 31, 2006, respectively		7		7
Additional paid-in capital		1,791,961		1,769,772
Retained earnings (accumulated deficit)		(14,358)		228
Accumulated other comprehensive income		711		1,786
Total stockholders equity		1,778,321		1,771,793
Total liabilities and stockholders equity	$	4,377,249	$	4,084,947

See accompanying notes to condensed consolidated financial statements.

1

Table of Contents

LEAP WIRELESS INTERNATIONAL, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited and in thousands, except per share data)

	Three Months Ended June 30, 2007 (As Restated) (See Note 2)	Three Months Ended June 30, 2006 (As Restated) (See Note 2)	Six Months Ended June 30, 2007 (As Restated) (See Note 2)	Six Months Ended June 30, 2006 (As Restated) (See Note 2)
Revenues:				
Service revenues	$ 347,253	$ 227,160	$ 668,944	$ 445,245
Equipment revenues	50,661	50,299	122,395	114,064
Total revenues	397,914	277,459	791,339	559,309
Operating expenses:				
Cost of service (exclusive of items shown separately below)	(90,559)	(61,255)	(180,999)	(117,465)
Cost of equipment	(90,818)	(65,396)	(213,483)	(137,373)
Selling and marketing	(47,011)	(35,942)	(95,780)	(65,044)
General and administrative	(66,407)	(46,576)	(131,641)	(95,666)
Depreciation and amortization	(72,415)	(53,337)	(141,215)	(107,373)
Impairment of indefinite-lived intangible assets		(3,211)		(3,211)
Total operating expenses	(367,210)	(265,717)	(763,118)	(526,132)
Net gain on sale of wireless licenses and disposal of operating assets			940	
Operating income	30,704	11,742	29,161	33,177
Minority interests in consolidated subsidiaries	673	(134)	2,252	(209)
Interest income	7,134	5,533	12,419	9,727
Interest expense	(27,090)	(8,423)	(53,586)	(15,854)
Other expense, net		(5,918)	(637)	(5,383)
Income (loss) before income taxes and cumulative effect of change in accounting principle	11,421	2,800	(10,391)	21,458
Income tax expense	(1,783)		(4,195)	
Income (loss) before cumulative effect of change in accounting principle	9,638	2,800	(14,586)	21,458
Cumulative effect of change in accounting principle				623
Net income (loss)	$ 9,638	$ 2,800	$ (14,586)	$ 22,081

Basic earnings (loss) per share:				
Income (loss) before cumulative effect of change in accounting principle	$ 0.14	$ 0.05	$ (0.22)	$ 0.36
Cumulative effect of change in accounting principle				0.01
Basic earnings (loss) per share	$ 0.14	$ 0.05	$ (0.22)	$ 0.37
Diluted earnings (loss) per share:				
Income (loss) before cumulative effect of change in accounting principle	$ 0.14	$ 0.05	$ (0.22)	$ 0.35
Cumulative effect of change in accounting principle				0.01
Diluted earnings (loss) per share	$ 0.14	$ 0.05	$ (0.22)	$ 0.36
Shares used in per share calculations:				
Basic	67,124	60,282	66,998	60,282
Diluted	68,800	61,757	66,998	61,651

See accompanying notes to condensed consolidated financial statements.

LEAP WIRELESS INTERNATIONAL, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited and in thousands)

	Six Months Ended June 30, 2007 (As Restated) (See Note 2)	Six Months Ended June 30, 2006 (As Restated) (See Note 2)
Operating activities:		
Net cash provided by operating activities	$ 108,795	$ 101,019
Investing activities:		
Purchases of property and equipment	(239,413)	(187,004)
Change in prepayments for purchases of property and equipment	11,187	5,683
Purchases of and deposits for wireless licenses	(2,361)	(532)
Proceeds from sale of wireless licenses	9,500	
Purchases of investments	(380,743)	(88,535)
Sales and maturities of investments	91,360	123,657
Purchase of minority interest	(4,706)	
Purchase of membership units	(13,182)	
Changes in restricted cash, cash equivalents and short-term investments, net	834	(101)
Net cash used in investing activities	(527,524)	(146,832)
Financing activities:		
Proceeds from long-term debt	370,480	900,000
Repayment of long-term debt	(4,500)	(594,444)
Payment of debt issuance costs	(1,319)	(3,268)
Payment of fees related to forward equity sale		(219)
Minority interest contributions		2,222
Proceeds from issuance of common stock, net	7,588	725
Net cash provided by financing activities	372,249	305,016
Net increase (decrease) in cash and cash equivalents	(46,480)	259,203
Cash and cash equivalents at beginning of period	372,812	293,073
Cash and cash equivalents at end of period	$ 326,332	$ 552,276
Supplementary cash flow information:		
Cash paid for interest	$ 72,295	$ 23,641
Cash paid for income taxes	$ 341	$ 218

See accompanying notes to condensed consolidated financial statements.

Table of Contents

LEAP WIRELESS INTERNATIONAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 1. The Company

Leap Wireless International, Inc. (Leap), a Delaware corporation, together with its subsidiaries, is a wireless communications carrier that offers digital wireless service in the United States of America under the Cricket® and Jump™ Mobile brands. Cricket service offers customers unlimited wireless service for a flat monthly rate without requiring a fixed-term contract or credit check. Jump Mobile service offers customers a per-minute prepaid wireless service. Leap conducts operations through its subsidiaries and has no independent operations or sources of operating revenue other than through dividends, if any, from its subsidiaries. Cricket and Jump Mobile services are offered by Cricket Communications, Inc. (Cricket), a wholly owned subsidiary of Leap, and by Alaska Native Broadband 1 License, LLC (ANB 1 License), an indirect wholly owned subsidiary of Cricket. Cricket and Jump Mobile services are also offered in Oregon by LCW Wireless Operations, LLC (LCW Operations), a wholly owned subsidiary of LCW Wireless, LLC (LCW Wireless) and a designated entity under Federal Communications Commission (FCC) regulations. Cricket owns an indirect 73.3% non-controlling interest in LCW Operations through a 73.3% non-controlling interest in LCW Wireless. Cricket also owns an 82.5% non-controlling interest in Denali Spectrum, LLC (Denali), which purchased a wireless license in the Great Lakes area in the FCC s auction for Advanced Wireless Service licenses (Auction #66) as a designated entity through its wholly owned subsidiary, Denali Spectrum License, LLC (Denali License). Leap, Cricket, and their subsidiaries, including LCW Wireless and Denali, are collectively referred to herein as the Company.

In March 2007, Cricket acquired the remaining 25% of the membership interests in Alaska Native Broadband 1, LLC (ANB 1), following Alaska Native Broadband, LLC s exercise of its option to sell its entire 25% controlling interest in ANB 1 to Cricket for $4.7 million. As a result of the acquisition, ANB 1 and its wholly owned subsidiary, ANB 1 License, became direct and indirect wholly owned subsidiaries, respectively, of Cricket.

The Company operates in a single operating segment as a wireless communications carrier that offers digital wireless service in the United States of America. As of and for the six months ended June 30, 2007, all of the Company s revenues and long-lived assets related to operations in the United States of America.

Note 2. Restatement of Previously Reported Consolidated Financial Statements

The Company has restated its historical condensed consolidated financial statements as of and for the quarterly period ended June 30, 2007, its historical consolidated financial statements as of the year ended December 31, 2006 and its historical condensed consolidated financial statements as of and for the quarterly period ended June 30, 2006 included in this report.

The determination to restate these consolidated financial statements and quarterly condensed consolidated financial statements was made by the Company s Audit Committee upon management s recommendation following the identification of errors related to the Company s accounting for revenues and operating expenses. The general nature and scope of the related errors and adjustments are summarized as follows:

> *Errors in the Timing of Recognition of Service Revenues (Revenue Timing Adjustments)* The Company identified several timing errors in the recognition of service revenues that generally resulted from errors in the processes that the Company used to ensure that revenues were not recognized until service had been provided to customers and cash had been received from them. The nature of these timing errors generally was that revenue that was recognized in a particular month should have been recognized in either the preceding or the

following month. These errors resulted in an overstatement of service revenues of $2.2 million and $5.0 million in the three and six months ended June 30, 2007, respectively, and an overstatement of service revenues of $5.3 million and $4.1 million in the three and six months ended June 30, 2006, respectively.

Other Errors in the Recognition of Service Revenues (Other Revenue Adjustments) The Company incorrectly recognized revenue for a group of customers who voluntarily disconnected their service. For

Table of Contents

these customers, approximately one month of deferred revenue that was recorded when the customers monthly bills were generated was mistakenly recognized as revenue after their service was disconnected, due to the fact that one of the key reports used to validate that revenue is not recognized for customers who have not yet paid erroneously excluded this subset of disconnected customer balances. These customers comprised a small percentage of the Company s disconnected customers, and the error arose in connection with the Company s re-implementation of the pay-in-advance billing method for new and reactivating customers in May 2006. This error resulted in an overstatement of service revenues of $2.6 million and $4.6 million in the three and six months ended June 30, 2007, respectively, and an overstatement of service revenues of $0.1 million in the three and six months ended June 30, 2006. In addition, certain other errors were made in the recognition of revenue and revenue-related accounts, resulting in an understatement of service revenues of $0.3 million and an overstatement of service revenues of $1.5 million in the three and six months ended June 30, 2007, respectively, and an understatement of service revenues of $0.6 million and $0.4 million in the three and six months ended June 30, 2006, respectively.

Errors in the Classification of Certain Components of Service Revenues, Equipment Revenues and Operating Expenses (Reclassification Adjustments) The Company identified errors relating to the classification of certain components of service revenues, equipment revenues and operating expenses. The Company incorrectly classified certain customer service fees as equipment revenue rather than service revenue. The Company incorrectly classified certain costs related to handset insurance purchased by some pay-in-arrears customers as a reduction of service revenues rather than as a cost of service. The Company incorrectly classified certain revenues received by the Company in connection with handsets sold to Company customers under insurance or other handset replacement programs as a reduction in handset costs rather than as equipment revenues. These classification errors resulted from deficiencies in certain account analyses that resulted in the Company incorrectly analyzing certain types of transactions for their classification impacts. The errors resulted in a net understatement of total revenues and understatement of operating expenses of $9.9 million and $20.4 million in the three and six months ended June 30, 2007, respectively, and a net understatement of total revenues and understatement of operating expenses of $14.3 million and $28.3 million in the three and six months ended June 30, 2006, respectively. These errors had no impact on operating income or net income.

Other Non-Material Items (Other Adjustments) The Company identified other errors that were not material, individually or in the aggregate, to its financial statements taken as a whole. However, because the Company is restating its financial statements for the effects of the items noted above, the Company revised its previously reported financial statements to correct all identified errors, including those that were not material. These items resulted in a net understatement of operating expenses of $1.0 million and $0.4 million in the three and six months ended June 30, 2007, respectively, and a net understatement of operating expenses of $0.02 million and $0.4 million in the three and six months ended June 30, 2006, respectively.

Income Tax Adjustments The State of Texas made certain technical corrections to the Texas Margins Tax (TMT) credit in June 2007 which confirmed that the Company was eligible for a $2.5 million TMT credit against future tax liabilities. The Company believes that it is more likely than not that the TMT credit will be realized and therefore a valuation allowance should not have been established for this item during the second quarter of 2007. Accordingly, the Company has recorded an adjustment to release that valuation allowance in the second quarter of 2007, which resulted in the realization of a $2.5 million income tax benefit and a $2.5 million increase in net income for such period.

The Company is also restating its income tax provisions for the historical periods described above to reflect the tax impact of the adjustments to pre-tax income. In particular, the Company s tax provision for the quarter ended March 31, 2007 was originally computed using an annual effective tax rate. As a result of the adjustments made to the Company s historical financial statements, the Company s revised income forecast at March 31, 2007 was lowered to a level close to break-even. Under the revised forecast, a small change in the pre-tax book income projection would produce a significant variance in the effective tax rate and, therefore, it would be difficult to make a reliable estimate of the annual effective tax rate. As a result and in accordance with Financial Accounting

Table of Contents

Standards Board (FASB) Interpretation No. (FIN) 18, Accounting for Income Taxes in Interim Periods An Interpretation of APB Opinion No. 28 (FIN 18), the Company s restated income tax provision for the quarter ended March 31, 2007 has been calculated by applying the actual effective tax rate to the year-to-date income.

The following tables present the adjustments due to the restatements of the Company s previously issued consolidated financial statements and quarterly condensed consolidated financial statements as of and for the quarterly period ended June 30, 2007, as of the year ended December 31, 2006, and for the quarterly period ended June 30, 2006 (in thousands, except share and per share data):

	June 30, 2007		
	Previously Reported	Adjustments (Unaudited)	As Restated
Assets			
Cash and cash equivalents	$ 327,328	$ (996)	$ 326,332
Short-term investments	357,444		357,444
Restricted cash, cash equivalents and short-term investments	12,747		12,747
Inventories	90,343		90,343
Other current assets	46,613	995	47,608
Total current assets	834,475	(1)	834,474
Property and equipment, net	1,144,131	2,271	1,146,402
Wireless licenses	1,857,312		1,857,312
Goodwill	431,896	(6,114)	425,782
Other intangible assets, net	62,965		62,965
Deposits for wireless licenses	758		758
Other assets	49,556		49,556
Total assets	$ 4,381,093	$ (3,844)	$ 4,377,249
Liabilities and Stockholders Equity			
Accounts payable and accrued liabilities	$ 209,584	$ 3,049	$ 212,633
Current maturities of long-term debt	9,000		9,000
Other current liabilities	75,212	23,815	99,027
Total current liabilities	293,796	26,864	320,660
Long-term debt	2,042,249		2,042,249
Deferred tax liabilities	155,684	(3,654)	152,030
Other long-term liabilities	50,041		50,041
Total liabilities	2,541,770	23,210	2,564,980
Minority interests	34,084	(136)	33,948
Stockholders equity:			
Preferred stock			
Common stock	7		7

Additional paid-in capital	1,791,961		1,791,961
Retained earnings (accumulated deficit)	12,560	(26,918)	(14,358)
Accumulated other comprehensive income	711		711
Total stockholders equity	1,805,239	(26,918)	1,778,321
Total liabilities and stockholders equity	$ 4,381,093	$ (3,844)	$ 4,377,249

Table of Contents

	Three Months Ended June 30, 2007 (Unaudited)						
	Previously Reported	Revenue Timing Adjustments	Other Revenue Adjustments	Reclassification Adjustments	Other Adjustments	Income Tax Adjustments	As Restated
Revenues:							
Service revenues	$ 350,212	$ (2,213)	$ (2,333)	$ 1,587	$	$	$ 347,253
Equipment revenues	42,997	(677)		8,341			50,661
Total revenues	393,209	(2,890)	(2,333)	9,928			397,914
Operating expenses:							
Cost of service (exclusive of items shown separately below)	(89,622)			(233)	(704)		(90,559)
Cost of equipment	(81,052)			(9,695)	(71)		(90,818)
Selling and marketing	(46,861)				(150)		(47,011)
General and administrative	(66,371)				(36)		(66,407)
Depreciation and amortization	(72,415)						(72,415)
Total operating expenses	(356,321)			(9,928)	(961)		(367,210)
Operating income	36,888	(2,890)	(2,333)		(961)		30,704
Minority interests in consolidated subsidiaries	652				21		673
Interest income	7,134						7,134
Interest expense	(27,090)						(27,090)
Income before income taxes	17,584	(2,890)	(2,333)		(940)		11,421
Income tax expense	(14,337)					12,554	(1,783)
Net income	$ 3,247	$ (2,890)	$ (2,333)	$	$ (940)	$ 12,554	$ 9,638
Basic and diluted earnings per share:							
Basic earnings per share	$ 0.05	$ (0.04)	$ (0.04)	$	$ (0.01)	$ 0.18	$ 0.14
Diluted earnings per share	$ 0.05	$ (0.04)	$ (0.04)	$	$ (0.01)	$ 0.18	$ 0.14

Shares used in per share calculations:		
Basic	67,124	67,124
Diluted	68,800	68,800

7

	Six Months Ended June 30, 2007 (Unaudited)						
	Previously Reported	Revenue Timing Adjustments	Other Revenue Adjustments	Reclassification Adjustments	Other Adjustments	Income Tax Adjustments	As Restated
Revenues:							
Service revenues	$ 677,021	$ (5,018)	$ (6,098)	$ 3,039	$	$	$ 668,944
Equipment revenues	105,610	(554)		17,339			122,395
Total revenues	782,631	(5,572)	(6,098)	20,378			791,339
Operating expenses:							
Cost of service (exclusive of items shown separately below)	(180,571)			(546)	118		(180,999)
Cost of equipment	(193,534)			(19,832)	(117)		(213,483)
Selling and marketing	(95,421)				(359)		(95,780)
General and administrative	(131,570)				(71)		(131,641)
Depreciation and amortization	(141,215)						(141,215)
Total operating expenses	(742,311)			(20,378)	(429)		(763,118)
Net gain on sale of wireless licenses and disposal of operating assets	940						940
Operating income	41,260	(5,572)	(6,098)		(429)		29,161
Minority interests in consolidated subsidiaries	2,172				80		2,252
Interest income	12,419						12,419
Interest expense	(53,586)						(53,586)
Other expense, net	(637)						(637)
Income (loss) before income taxes	1,628	(5,572)	(6,098)		(349)		(10,391)
Income tax expense	(6,504)					2,309	(4,195)
Net loss	$ (4,876)	$ (5,572)	$ (6,098)	$	$ (349)	$ 2,309	$ (14,586)
Basic and diluted loss per share:							

Basic loss per share	$ (0.07)	$ (0.08)	$ (0.09)	$	$ (0.01)	$ 0.03	$ (0.22)
Diluted loss per share	$ (0.07)	$ (0.08)	$ (0.09)	$	$ (0.01)	$ 0.03	$ (0.22)
Shares used in per share calculations:							
Basic	66,998						66,998
Diluted	66,998						66,998

Table of Contents

	Six Months Ended June 30, 2007		
	Previously Reported	Adjustments (Unaudited)	As Restated
Operating activities:			
Net cash provided by operating activities	$ 106,159	$ 2,636	$ 108,795
Investing activities:			
Purchases of property and equipment	(237,908)	(1,505)	(239,413)
Change in prepayments for purchases of property and equipment	11,187		11,187
Purchases of and deposits for wireless licenses and spectrum clearing costs	(2,361)		(2,361)
Proceeds from sale of wireless licenses and operating assets	9,500		9,500
Purchases of investments	(380,743)		(380,743)
Sales and maturities of investments	91,360		91,360
Purchase of minority interest	(4,706)		(4,706)
Purchase of membership units	(13,182)		(13,182)
Changes in restricted cash, cash equivalents and short-term investments, net	834		834
Net cash used in investing activities	(526,019)	(1,505)	(527,524)
Financing activities:			
Proceeds from long-term debt	370,480		370,480
Repayment of long-term debt	(4,500)		(4,500)
Payment of debt issuance costs	(1,319)		(1,319)
Proceeds from issuance of common stock, net	7,588		7,588
Net cash provided by financing activities	372,249		372,249
Net decrease in cash and cash equivalents	(47,611)	1,131	(46,480)
Cash and cash equivalents at beginning of period	374,939	(2,127)	372,812
Cash and cash equivalents at end of period	$ 327,328	$ (996)	$ 326,332
Supplementary cash flow information:			
Cash paid for interest	$ 72,295	$	$ 72,295
Cash paid for income taxes	$ 341	$	$ 341

Table of Contents

	December 31, 2006		
	Previously Reported	Adjustments	As Restated
Assets			
Cash and cash equivalents	$ 374,939	$ (2,127)	$ 372,812
Short-term investments	66,400		66,400
Restricted cash, cash equivalents and short-term investments	13,581		13,581
Inventories	90,185		90,185
Other current assets	53,527	(546)	52,981
Total current assets	598,632	(2,673)	595,959
Property and equipment, net	1,077,755	766	1,078,521
Wireless licenses	1,563,958		1,563,958
Assets held for sale	8,070		8,070
Goodwill	431,896	(6,114)	425,782
Other intangible assets, net	79,828		79,828
Deposits for wireless licenses	274,084		274,084
Other assets	58,745		58,745
Total assets	$ 4,092,968	$ (8,021)	$ 4,084,947
Liabilities and Stockholders Equity			
Accounts payable and accrued liabilities	$ 316,494	$ 599	$ 317,093
Current maturities of long-term debt	9,000		9,000
Other current liabilities	74,637	10,038	84,675
Total current liabilities	400,131	10,637	410,768
Long-term debt	1,676,500		1,676,500
Deferred tax liabilities	149,728	(1,393)	148,335
Other long-term liabilities	47,608		47,608
Total liabilities	2,273,967	9,244	2,283,211
Minority interests	30,000	(57)	29,943
Stockholders equity:			
Preferred stock			
Common stock	7		7
Additional paid-in capital	1,769,772		1,769,772
Retained earnings	17,436	(17,208)	228
Accumulated other comprehensive income	1,786		1,786
Total stockholders equity	1,789,001	(17,208)	1,771,793
Total liabilities and stockholders equity	$ 4,092,968	$ (8,021)	$ 4,084,947

Table of Contents

	Three Months Ended June 30, 2006						
	Previously Reported	Revenue Timing Adjustments	Other Revenue Adjustments	Reclassification Adjustments (Unaudited)	Other Adjustments	Income Tax Adjustments	As Restated
Revenues:							
Service revenues	$ 230,786	$ (5,305)	$ 474	$ 1,205	$	$	$ 227,160
Equipment revenues	37,068	137		13,094			50,299
Total revenues	267,854	(5,168)	474	14,299			277,459
Operating expenses:							
Cost of service (exclusive of items shown separately below)	(60,255)			(984)	(16)		(61,255)
Cost of equipment	(52,081)			(13,315)			(65,396)
Selling and marketing	(35,942)						(35,942)
General and administrative	(46,576)						(46,576)
Depreciation and amortization	(53,337)						(53,337)
Impairment of assets	(3,211)						(3,211)
Total operating expenses	(251,402)			(14,299)	(16)		(265,717)
Operating income	16,452	(5,168)	474		(16)		11,742
Minority interests in consolidated subsidiaries	(134)						(134)
Interest income	5,533						5,533
Interest expense	(8,423)						(8,423)
Other expense, net	(5,918)						(5,918)
Income before income taxes	7,510	(5,168)	474		(16)		2,800
Income tax expense							
Net income	$ 7,510	$ (5,168)	$ 474	$	$ (16)	$	$ 2,800
Basic and diluted earnings per share:							
Basic earnings per share	$ 0.12	$ (0.08)	$ 0.01	$	$	$	$ 0.05
Diluted earnings per share	$ 0.12	$ (0.08)	$ 0.01	$	$	$	$ 0.05

Shares used in per share calculations:		
Basic	60,282	60,282
Diluted	61,757	61,757

Table of Contents

	Six Months Ended June 30, 2006						
	Previously Reported	Revenue Timing Adjustments	Other Revenue Adjustments	Reclassification Adjustments	Other Adjustments	Income Tax Adjustments	As Restated
				(Unaudited)			
Revenues:							
Service revenues	$ 446,626	$ (4,050)	$ 331	$ 2,338	$	$	$ 445,245
Equipment revenues	87,916	137		26,011			114,064
Total revenues	534,542	(3,913)	331	28,349			559,309
Operating expenses:							
Cost of service (exclusive of items shown separately below)	(115,459)			(1,943)	(63)		(117,465)
Cost of equipment	(110,967)			(26,406)			(137,373)
Selling and marketing	(65,044)						(65,044)
General and administrative	(96,158)				492		(95,666)
Depreciation and amortization	(107,373)						(107,373)
Impairment of indefinite-lived intangible assets	(3,211)						(3,211)
Total operating expenses	(498,212)			(28,349)	429		(526,132)
Operating income	36,330	(3,913)	331		429		33,177
Minority interests in consolidated subsidiaries	(209)						(209)
Interest income	9,727						9,727
Interest expense	(15,854)						(15,854)
Other expense, net	(5,383)						(5,383)
Income before income taxes and cumulative effect of change in accounting principle	24,611	(3,913)	331		429		21,458
Income tax expense							
Income before cumulative effect of change in accounting principle	24,611	(3,913)	331		429		21,458
Cumulative effect of change in accounting	623						623

principle							
Net income	$ 25,234	$ (3,913)	$ 331	$	$ 429	$	$ 22,081
Basic earnings per share:							
Income before cumulative effect of change in accounting principle	$ 0.41	$ (0.07)	$ 0.01	$	$ 0.01	$	$ 0.36
Cumulative effect of change in accounting principle	0.01						0.01
Basic earnings per share	$ 0.42	$ (0.07)	$ 0.01	$	$ 0.01	$	$ 0.37
Diluted earnings per share:							
Income before cumulative effect of change in accounting principle	$ 0.40	$ (0.07)	$ 0.01	$	$ 0.01	$	$ 0.35
Cumulative effect of change in accounting principle	0.01						0.01
Diluted earnings per share	$ 0.41	$ (0.07)	$ 0.01	$	$ 0.01	$	$ 0.36
Shares used in per share calculations:							
Basic	60,282						60,282
Diluted	61,651						61,651

Table of Contents

	Six Months Ended June 30, 2006		
	Previously Reported	Adjustments (Unaudited)	As Restated
Operating activities:			
Net cash provided by operating activities	$ 101,781	$ (762)	$ 101,019
Investing activities:			
Purchases of property and equipment	(187,004)		(187,004)
Change in prepayments for purchases of property and equipment	5,683		5,683
Purchases of and deposits for wireless licenses and spectrum clearing costs	(532)		(532)
Purchases of investments	(88,535)		(88,535)
Sales and maturities of investments	123,657		123,657
Changes in restricted cash, cash equivalents and short-term investments, net	(101)		(101)
Net cash used in investing activities	(146,832)		(146,832)
Financing activities:			
Proceeds from long-term debt	900,000		900,000
Repayment of long-term debt	(594,444)		(594,444)
Payment of debt issuance costs	(3,268)		(3,268)
Payment of fees related to forward equity sale	(219)		(219)
Minority interest contributions	2,222		2,222
Proceeds from issuance of common stock, net	725		725
Net cash provided by financing activities	305,016		305,016
Net increase in cash and cash equivalents	259,965	(762)	259,203
Cash and cash equivalents at beginning of period	293,073		293,073
Cash and cash equivalents at end of period	$ 553,038	$ (762)	$ 552,276
Supplementary cash flow information:			
Cash paid for interest	$ 23,641	$	$ 23,641
Cash paid for income taxes	$ 218	$	$ 218

Note 3. Basis of Presentation and Significant Accounting Policies

Basis of Presentation

The accompanying interim condensed consolidated financial statements have been prepared by the Company without audit, in accordance with the instructions to Form 10-Q and, therefore, do not include all information and footnotes required by accounting principles generally accepted in the United States of America for a complete set of financial statements. These condensed consolidated financial statements and notes thereto should be read in conjunction with the consolidated financial statements and notes thereto included in the Company s Amendment No. 1 to Annual Report on Form 10-K/A for the year ended December 31, 2006. In the opinion of management, the unaudited financial information for the interim periods presented reflects all adjustments necessary for a fair statement of the results for the periods presented, with such adjustments consisting of normal recurring adjustments and other than normal recurring adjustments associated with the restatement adjustments described in Note 2. Operating results for interim periods are not necessarily indicative of operating results for an entire fiscal year.

The condensed consolidated financial statements include the accounts of Leap and its wholly owned subsidiaries as well as the accounts of LCW Wireless and Denali and their wholly owned subsidiaries. The

Company consolidates its interests in LCW Wireless and Denali in accordance with FIN 46-R, Consolidation of Variable Interest Entities, because these entities are variable interest entities and the Company will absorb a majority of their expected losses. All significant intercompany accounts and transactions have been eliminated in the condensed consolidated financial statements.

Revenues

Cricket s business revenues principally arise from the sale of wireless services, handsets and accessories. Wireless services are generally provided on a month-to-month basis. New and reactivating customers are required to pay for their service in advance, and generally, customers who activated their service prior to May 2006 pay in arrears. The Company does not require any of its customers to sign fixed-term service commitments or submit to a credit check. These terms generally appeal to less affluent customers who are considered more likely to terminate service for inability to pay than wireless customers in general. Consequently, the Company has concluded that collectibility of its revenues is not reasonably assured until payment has been received. Accordingly, service revenues are recognized only after services have been rendered and payment has been received.

When the Company activates a new customer, it frequently sells that customer a handset and the first month of service in a bundled transaction. Under the provisions of Emerging Issues Task Force (EITF) Issue No. 00-21, Revenue Arrangements with Multiple Deliverables, the sale of a handset along with a month of wireless service constitutes a multiple element arrangement. Under EITF Issue No. 00-21, once a company has determined the fair value of the elements in the sales transaction, the total consideration received from the customer must be allocated among those elements on a relative fair value basis. Applying EITF Issue No. 00-21 to these transactions results in the Company recognizing the total consideration received, less one month of wireless service revenue (at the customer s stated rate plan), as equipment revenue.

Equipment revenues and related costs from the sale of handsets are recognized when service is activated by customers. Revenues and related costs from the sale of accessories are recognized at the point of sale. In addition to handsets that the Company sells directly to its customers at Cricket-owned stores, the Company also sells handsets to third-party dealers. These dealers then sell the handsets to the ultimate Cricket customer, and that customer also receives the first month of service in a bundled transaction (identical to the sale made at a Cricket-owned store). The costs of handsets and accessories sold are recorded in cost of equipment. Sales of handsets to third-party dealers are recognized as equipment revenues only when service is activated by customers, since the level of price reductions ultimately available to such dealers is not reliably estimable until the handsets are sold by such dealers to customers. Thus, handsets sold to third-party dealers are recorded as consigned inventory until they are sold to, and service is activated by, customers.

Through a third-party insurance provider, the Company s customers may elect to participate in a handset insurance program. The Company recognizes revenue on replacement handsets sold to its customers under the program when the customer purchases a replacement handset.

Sales incentives offered without charge to customers and volume-based incentives paid to the Company s third-party dealers are recognized as a reduction of revenue and as a liability when the related service or equipment revenue is recognized. Customers have limited rights to return handsets and accessories based on time and/or usage; as a result, customer returns of handsets and accessories have historically been negligible.

Amounts billed by the Company in advance of customers wireless service periods are not reflected in accounts receivable or deferred revenue as collectibility of such amounts is not reasonably assured. Deferred revenue consists primarily of cash received from customers in advance of their service period and deferred equipment revenue related to handsets and accessories sold to third-party dealers.

Costs and Expenses

The Company s costs and expenses include:

Cost of Service. The major components of cost of service are: charges from other communications companies for long distance, roaming and content download services provided to the Company s customers; charges from other communications companies for their transport and termination of calls originated by the

Company s customers and destined for customers of other networks; and expenses for tower and network facility rent, engineering operations, field technicians and related utility and maintenance charges, and salary and overhead charges associated with these functions.

Cost of Equipment. Cost of equipment primarily includes the cost of handsets and accessories purchased from third-party vendors and resold to the Company s customers in connection with its services, as well as lower of cost or market write-downs associated with excess and damaged handsets and accessories.

Selling and Marketing. Selling and marketing expenses primarily include advertising expenses, promotional and public relations costs associated with acquiring new customers, store operating costs (such as retail associates salaries and rent), and overhead charges associated with selling and marketing functions.

General and Administrative. General and administrative expenses primarily include call center and other customer care program costs and salary, overhead and outside consulting costs associated with the Company s customer care, billing, information technology, finance, human resources, accounting, legal and executive functions.

Property and Equipment

Property and equipment are initially recorded at cost. Additions and improvements are capitalized, while expenditures that do not enhance the asset or extend its useful life are charged to operating expenses as incurred. Depreciation is applied using the straight-line method over the estimated useful lives of the assets once the assets are placed in service.

The following table summarizes the depreciable lives for property and equipment (in years):

	Depreciable Life
Network equipment:	
Switches	10
Switch power equipment	15
Cell site equipment, and site acquisitions and improvements	7
Towers	15
Antennae	3
Computer hardware and software	3-5
Furniture, fixtures, retail and office equipment	3-7

The Company s network construction expenditures are recorded as construction-in-progress until the network or assets are placed in service, at which time the assets are transferred to the appropriate property or equipment category. The Company capitalizes salaries and related costs of engineering and technical operations employees as components of construction-in-progress during the construction period to the extent time and expense are contributed to the construction effort. The Company also capitalizes certain telecommunications and other related costs as construction-in-progress during the construction period to the extent they are incremental and directly related to the network under construction. In addition, interest is capitalized on the carrying values of both wireless licenses and equipment during the construction period and is depreciated over an estimated useful life of ten years. During the three and six months ended June 30, 2007, the Company capitalized interest of $11.2 million and $21.9 million, respectively, to property and equipment. During the three and six months ended June 30, 2006, the Company capitalized interest of $4.5 million and $8.9 million, respectively, to property and equipment.

Property and equipment to be disposed of by sale is not depreciated and is carried at the lower of carrying value or fair value less costs to sell. As of June 30, 2007 and December 31, 2006, there was no property or equipment classified as assets held for sale.

Wireless Licenses

Wireless licenses are initially recorded at cost and are not amortized. Wireless licenses are considered to be indefinite-lived intangible assets because the Company expects to continue to provide wireless service using the relevant licenses for the foreseeable future, and wireless licenses may be renewed every ten to fifteen years for a nominal fee. Wireless licenses to be disposed of by sale are carried at the lower of carrying value or fair value less costs to sell. As of June 30, 2007 there were no wireless licenses classified as assets held for sale. As of December 31, 2006, wireless licenses with a carrying value of $8.1 million were classified as assets held for sale.

Investments in Other Entities

The Company uses the equity method to account for investments in common stock of corporate entities in which it has a voting interest of 20% to 50% or in which it otherwise has the ability to exercise significant influence, and in limited liability companies that maintain specific ownership accounts in which it has more than a minor but not greater than a 50% ownership interest. Under the equity method, the investment is originally recorded at cost and adjusted to recognize the Company s share of net earnings or losses of the investee.

The Company regularly monitors and evaluates the realizable value of its investments. When assessing an investment for an other-than-temporary decline in value, the Company considers such factors as, among other things, the performance of the investee in relation to its business plan, the investee s revenue and cost trends, liquidity and cash position, market acceptance of the investee s products/services, any significant news that has been released specific to the investee, and the outlook for the overall industry in which the investee operates. If events and circumstances indicate that a decline in the value of these assets has occurred and is other-than-temporary, the Company records a reduction in the carrying value of its investment and a corresponding charge to earnings.

Concentrations

The Company generally relies on one key vendor for billing services and one key vendor for handset logistics. Loss or disruption of these services could adversely affect the Company s business.

Share-Based Compensation

The Company accounts for share-based awards exchanged for employee services in accordance with Statement of Financial Accounting Standards (SFAS) No. 123(R), Share-Based Payment (SFAS 123(R)). Under SFAS 123(R), share-based compensation cost is measured at the grant date, based on the estimated fair value of the award, and is recognized as expense, net of estimated forfeitures, over the employee s requisite service period.

Total share-based compensation expense related to all of the Company s share-based awards for the three and six months ended June 30, 2007 and 2006 was allocated as follows (in thousands, except per share data):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007 (As Restated)	2006	2007 (As Restated)	2006 (As Restated)
Cost of service	$ 466	$ 261	$ 1,145	$ 519
Selling and marketing expenses	560	473	1,561	800
General and administrative expenses	4,869	3,954	11,933	7,861
Share-based compensation expense before tax	5,895	4,688	14,639	9,180
Related income tax benefit				

Share-based compensation expense, net of tax	$	5,895	$	4,688	$	14,639	$	9,180
Net share-based compensation expense per share:								
Basic	$	0.09	$	0.08	$	0.22	$	0.15
Diluted	$	0.09	$	0.08	$	0.22	$	0.15

16

Table of Contents

Income Taxes

The Company s provisions for income taxes during the interim reporting periods in 2005 and 2006 were based on estimates of its annual effective tax rate for the each full fiscal year. The computation of the annual effective tax rate includes a forecast of the Company s estimated ordinary income (loss), which is its annual income (loss) from continuing operations before tax, excluding unusual or infrequently occurring (or discrete) items. Significant management judgment is required in projecting the Company s ordinary income (loss) and the projection for 2007 is close to break-even. The Company s projected ordinary income tax expense for the full year 2007, which excludes the effect of unusual or infrequently occurring (or discrete) items, consists primarily of the deferred tax effect of the amortization of wireless licenses and goodwill for income tax purposes. Because the Company s projected 2007 income tax expense is a relatively fixed amount, a small change in the ordinary income (loss) projection can produce a significant variance in the effective tax rate and, therefore, it is difficult to make a reliable estimate of the annual effective tax rate. As a result and in accordance with paragraph 82 of FIN 18, the Company has computed its provision for income taxes for the three and six months ended June 30, 2007 by applying the actual effective tax rate to the year-to-date income.

The Company calculates income taxes in each of the jurisdictions in which it operates. This process involves calculating the actual current tax expense and any deferred income tax expense resulting from temporary differences arising from differing treatments of items for tax and accounting purposes. These temporary differences result in deferred tax assets and liabilities. Deferred tax assets are also established for the expected future tax benefits to be derived from net operating loss carryforwards, capital loss carryforwards, and income tax credits.

The Company must then periodically assess the likelihood that its deferred tax assets will be recovered from future taxable income, which assessment requires significant judgment. To the extent the Company believes it is more likely than not that its deferred tax assets will not be recovered, it must establish a valuation allowance. As part of this periodic assessment for the quarter ended June 30, 2007, the Company has weighed the positive and negative factors with respect to this determination and, at this time, except with respect to the realization of a $2.5 million Texas Margin Tax credit, does not believe there is sufficient positive evidence and sustained operating earnings to support a conclusion that it is more likely than not that all or a substantial portion of its deferred tax assets will be realized. At June 30, 2007, the Company has cumulative pre-tax income since its emergence from bankruptcy in August 2004. The Company will continue to closely monitor the positive and negative factors to determine whether its valuation allowance should be released. Deferred tax liabilities associated with wireless licenses, tax goodwill and investments in certain joint ventures cannot be considered a source of taxable income to support the realization of deferred tax assets because these deferred tax liabilities will not reverse until some indefinite future period.

At such time as the Company determines that it is more likely than not that the deferred tax assets are realizable, the valuation allowance will be reduced. Pursuant to American Institute of Certified Public Accountants Statement of Position 90-7, Financial Reporting by Entities in Reorganization under the Bankruptcy Code, up to $218.5 million in future decreases in the valuation allowance established in fresh-start reporting will be accounted for as a reduction in goodwill rather than as a reduction of income tax expense.

On January 1, 2007, the Company adopted the provisions of FIN 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109. The adoption of FIN 48 did not have a material effect on the Company s consolidated financial position or results of operations. At the date of adoption and during the three and six months ended June 30, 2007, the Company s unrecognized income tax benefits and uncertain tax positions were not material. Interest and penalties related to uncertain tax positions are recognized by the Company as a component of income tax expense but were immaterial on the date of adoption and for the three and six months ended June 30, 2007. All of the Company s tax years from 1998 to 2006 remain open to examination by federal and state taxing authorities.

17

Table of Contents

Comprehensive Income (Loss)

Comprehensive income (loss) consists of the following (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007 (As Restated)	2006 (As Restated)	2007 (As Restated)	2006 (As Restated)
Net income (loss)	$ 9,638	$ 2,800	$ (14,856)	$ 22,081
Other comprehensive income (loss):				
Net unrealized holding gains (losses) on investments	16	(25)	(11)	(42)
Unrealized gains (losses) on interest rate swaps	130	1,119	(1,064)	3,268
Comprehensive income (loss)	$ 9,784	$ 3,894	$ (15,931)	$ 25,307

Components of accumulated other comprehensive income consist of the following (in thousands):

	June 30, 2007	December 31, 2006
Net unrealized holding losses on investments, net of tax	$ (1,400)	$ (1,389)
Unrealized gains on interest rate swaps	2,111	3,175
Accumulated other comprehensive income	$ 711	$ 1,786

Recent Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements (SFAS 157), which defines fair value, establishes a framework for measuring fair value in accounting principles generally accepted in the United States of America and expands disclosure about fair value measurements. The Company will be required to adopt SFAS 157 in the first quarter of 2008. The Company is currently evaluating what impact, if any, SFAS 157 will have on its consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115 (SFAS 159), which permits all entities to choose, at specified election dates, to measure eligible items at fair value and establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. The Company will be required to adopt SFAS 159 in the first quarter of 2008. The Company is currently evaluating what impact, if any, SFAS 159 will have on its consolidated financial statements.

Note 4. Supplementary Balance Sheet Information (in thousands):

	June 30, 2007 (As Restated)	December 31, 2006 (As Restated)
Other current assets:		
Accounts receivable, net(1)	$ 24,350	$ 38,257
Prepaid expenses	20,219	11,808
Other	3,039	2,916
	$ 47,608	$ 52,981
Property and equipment, net:		
Network equipment	$ 1,263,026	$ 1,128,127
Computer equipment and other	121,431	100,496
Construction-in-progress	272,952	238,579
	1,657,409	1,467,202
Accumulated depreciation	(511,007)	(388,681)
	$ 1,146,402	$ 1,078,521
Accounts payable and accrued liabilities:		
Trade accounts payable	$ 96,511	$ 218,020
Accrued payroll and related benefits	29,923	29,450
Other accrued liabilities	86,199	69,623
	$ 212,633	$ 317,093
Other current liabilities:		
Deferred service revenue(2)	$ 42,346	$ 32,929
Deferred equipment revenue(3)	15,938	16,589
Accrued sales, telecommunications, property and other taxes payable	21,105	15,865
Accrued interest	13,421	13,671
Other	6,217	5,621
	$ 99,027	$ 84,675

(1) Accounts receivable consists primarily of amounts billed to third-party dealers for handsets and accessories.

(2) Deferred service revenue consists primarily of cash received from customers in advance of their service period.

(3) Deferred equipment revenue relates to handsets and accessories sold to third-party dealers.

Note 5. Basic and Diluted Earnings (Loss) Per Share

Basic earnings (loss) per share is computed by dividing net income (loss) by the weighted-average number of common shares outstanding during the period. Diluted earnings per share is computed by dividing net income by the sum of the weighted-average number of common shares outstanding during the period and the weighted-average number of dilutive common share equivalents outstanding during the period, using the treasury stock method. Dilutive common share equivalents are comprised of stock options, restricted stock awards, employee stock purchase rights, and warrants.

Table of Contents

A reconciliation of basic weighted-average shares outstanding to diluted weighted-average shares outstanding used in calculating basic and diluted earnings (loss) per share is as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Basic weighted-average shares outstanding	67,124	60,282	66,998	60,282
Effect of dilutive common share equivalents:				
Non-qualified stock options	717	176		96
Restricted stock awards	479	926		913
Employee stock purchase rights	5			
Warrants	475	373		360
Diluted weighted-average shares outstanding	68,800	61,757	66,998	61,651

The number of common share equivalents not included in the computation of diluted earnings per share, because the effect of their inclusion would have been antidilutive, totaled 0.6 million for the three months ended June 30, 2007 and 1.0 million and 1.1 million for the three and six months ended June 30, 2006, respectively. The Company incurred a loss for the six months ended June 30, 2007; therefore, 4.8 million common share equivalents were excluded from the computation of diluted earnings (loss) per share for that period.

Note 6. Long-Term Debt

Long-term debt as of June 30, 2007 and December 31, 2006 was comprised of the following (in thousands):

	June 30, 2007	December 31, 2006
Term loans under senior secured credit facilities	$ 931,000	$ 935,500
Senior notes	1,120,249	750,000
	2,051,249	1,685,500
Current maturities of long-term debt	(9,000)	(9,000)
	$ 2,042,249	$ 1,676,500

Senior Secured Credit Facilities

In March 2007, the Company entered into an agreement amending Cricket s senior secured credit facility. The new facility under Cricket s amended and restated senior secured credit agreement (the Credit Agreement) consists of a six year $895.5 million term loan and an undrawn $200 million revolving credit facility. The new term loan bears interest at the London Interbank Offered Rate (LIBOR) plus 2.25% or the bank base rate plus 1.25%, as selected by Cricket, with the rate subject to adjustment based on Leap s corporate family debt rating. These new interest rates represented a reduction of 50 basis points from the rates previously applicable to the term loan prior to the amendment. During the quarter ended June 30, 2007, Leap s corporate family debt rating was increased and the interest rate on the term loan was reduced by an additional 25 basis points in accordance with the terms of the Credit Agreement. Accordingly, the amendment during the first quarter and the adjustment during the second quarter represent an aggregate 75 basis point reduction to the interest rate spread that was applicable to the term loan at December 31, 2006. Outstanding borrowings under the new term loan must be repaid in 22 quarterly payments of $2.25 million each (which commenced on March 31, 2007) followed by four quarterly payments of $211.5 million (which commence on September 30, 2012). If the new term loan is prepaid in connection with a re-pricing transaction prior to March 15, 2008, a prepayment premium in the amount of 1.0% of the principal amount prepaid will be payable by Cricket.

To the extent they exist, outstanding borrowings under the revolving credit facility are due in June 2011. As of June 30, 2007, the revolving credit facility was undrawn. The commitment of the lenders under the revolving credit facility may be reduced in the event mandatory prepayments are required under the Credit Agreement. The commitment fee on the revolving credit facility is payable quarterly at a rate of between 0.25% and 0.50% per annum, depending on the Company s consolidated senior secured leverage ratio. Borrowings under the revolving credit facility would currently accrue interest at LIBOR plus 2.0% or the bank base rate plus 1.0%, as selected by Cricket, with the rate subject to adjustment based on the Company s consolidated senior secured leverage ratio.

As more fully described in Note 2, the Company has restated certain of its historical consolidated financial statements. On November 20, 2007, the Company entered into a second amendment (the Second Amendment) to the Credit Agreement in which the lenders waived defaults and potential defaults under the Credit Agreement arising from the Company s potential breach of representations regarding the presentation of its prior consolidated financial statements and the associated delay in filing its Quarterly Report on Form 10-Q for the quarter ended September 30, 2007. In addition, the Second Amendment amended the interest rates payable under the Credit Agreement. The term loan and revolving credit facility now bear interest at LIBOR plus 3.0% or the bank base rate plus 2.0%, as selected by Cricket, with the interest rate for the revolving credit facility subject to adjustment based on the Company s consolidated senior secured leverage ratio.

The facilities under the Credit Agreement are guaranteed by Leap and all of its direct and indirect domestic subsidiaries (other than Cricket, which is the primary obligor, and LCW Wireless and Denali and their respective subsidiaries) and are secured by substantially all of the present and future personal property and owned real property of Leap, Cricket and such direct and indirect domestic subsidiaries. Under the Credit Agreement, the Company is subject to certain limitations, including limitations on its ability to: incur additional debt or sell assets, with restrictions on the use of proceeds; make certain investments and acquisitions; grant liens; pay dividends; and make certain other restricted payments. In addition, the Company will be required to pay down the facilities under certain circumstances if it issues debt, sells assets or property, receives certain extraordinary receipts or generates excess cash flow (as defined in the Credit Agreement). The Company is also subject to a financial covenant with respect to a maximum consolidated senior secured leverage ratio and, if a revolving credit loan or uncollateralized letter of credit is outstanding, with respect to a minimum consolidated interest coverage ratio, a maximum consolidated leverage ratio and a minimum consolidated fixed charge ratio. In addition to investments in joint ventures relating to the FCC s Auction #66, the Credit Agreement allows the Company to invest up to $85 million in LCW Wireless and its subsidiaries and up to $150 million plus an amount equal to an available cash flow basket in other joint ventures, and allows the Company to provide limited guarantees for the benefit of LCW Wireless and other joint ventures.

In addition to the foregoing restrictions, the Second Amendment required the Company to furnish its unaudited condensed consolidated financial statements for the quarter ended September 30, 2007 to the administrative agent on or before December 14, 2007. On December 14, 2007, the Company filed its Quarterly Report on Form 10-Q for the quarter ended September 30, 2007 and delivered the required financial statements to the administrative agent. The Company is also required to furnish its amended Annual Report on Form 10-K for the year ended December 31, 2006 and revised unaudited condensed consolidated financial statements for the quarters ended March 31 and June 30, 2007 to the administrative agent on or before December 31, 2007. The Second Amendment also provides that these revised financial statements may not result in a cumulative net reduction in operating income for the period from January 1, 2005 through June 30, 2007 in excess of $35 million. If the Company were to fail to timely furnish such financial statements and documents to the administrative agent, this would result in an immediate default under the Credit Agreement which, unless waived by the required lenders, would permit the administrative agent to exercise its available remedies, including declaring all outstanding debt under the Credit Agreement to be immediately due and payable. An acceleration of the outstanding debt under the Credit Agreement would also trigger a default under Cricket s indenture governing its $1.1 billion of 9.375% senior notes due 2014. In addition to filing this Amendment No. 1 to Quarterly Report on Form 10-Q/A for the quarter ended June 30, 2007, the Company also expects to file the necessary amendments to its Annual Report on Form 10-K/A for the year ended December 31, 2006 and to its Quarterly Report on Form 10-Q/A for the quarter ended March 31, 2007, and to furnish the required financial statements and documents to the administrative agent, on or promptly following the date of this filing. Upon furnishing such financial statements and documents to the administrative agent, the Company will be in compliance with the covenants under the Second Amendment described above.

Affiliates of Highland Capital Management, L.P. (a beneficial stockholder of Leap and an affiliate of James D. Dondero, a director of Leap) participated in the syndication of the new term loan in an amount equal to $222.9 million. Additionally, Highland Capital Management continues to hold a $40 million commitment under the $200 million revolving credit facility.

At June 30, 2007, the effective interest rate on the term loan was 7.2%, which includes the effect of interest rate swaps, and the outstanding indebtedness was $891.0 million. The terms of the Credit Agreement require the Company to enter into interest rate swap agreements in a sufficient amount so that at least 50% of the Company s total outstanding indebtedness for borrowed money bears interest at a fixed rate. The Company is in compliance with this requirement. Prior to June 29, 2007, the Company had interest rate swap agreements with respect to $355 million of its debt which effectively fixed the interest rate on $250 million of indebtedness at 6.2% and $105 million of indebtedness at 6.3% through June 2007 and 2009, respectively. Because the interest rate swap with respect to $250 million of indebtedness was to expire on June 30, 2007, the Company entered into a new interest rate swap on June 29, 2007 which effectively fixed the LIBOR interest rate on $150 million of indebtedness at 7.3% through June 2009. As a result, the Company had interest rate swap agreements with respect to $255 million of its debt as of June 30, 2007. The fair value of the swap agreements at June 30, 2007 and December 31, 2006 was $2.1 million and $3.2 million, respectively, and was recorded in other assets in the condensed consolidated balance sheets.

LCW Operations has a senior secured credit agreement consisting of two term loans for $40 million in the aggregate. The loans bear interest at LIBOR plus the applicable margin ranging from 2.7% to 6.3%. At June 30, 2007, the effective interest rate on the term loans was 9.6%, and the outstanding indebtedness was $40 million. In January 2007, LCW Operations entered into an interest rate cap agreement which effectively caps the three-month LIBOR interest rate at 7.0% on $20 million of its outstanding borrowings. The obligations under the loans are guaranteed by LCW Wireless and LCW Wireless License, LLC, a wholly owned subsidiary of LCW Operations (and are non-recourse to Leap, Cricket and their other subsidiaries). Outstanding borrowings under the term loans must be repaid in varying quarterly installments starting in June 2008, with an aggregate final payment of $24.5 million due in June 2011. Under the senior secured credit agreement, LCW Operations and the guarantors are subject to certain limitations, including limitations on their ability to: incur additional debt or sell assets; make certain investments; grant liens; pay dividends; and make certain other restricted payments. In addition, LCW Operations will be required to pay down the facilities under certain circumstances if it or the guarantors issue debt, sell assets or generate excess cash flow. The senior secured credit agreement requires that LCW Operations and the guarantors comply with financial covenants related to earnings before interest, taxes, depreciation and amortization, gross additions of subscribers, minimum cash and cash equivalents and maximum capital expenditures, among other things.

Senior Notes

In October 2006, Cricket issued $750 million of unsecured senior notes due 2014 in a private placement to institutional buyers. During the second quarter, the Company offered to exchange the notes for identical notes that had been registered with the Securities and Exchange Commission (SEC), and all notes were tendered for exchange.

The notes bear interest at the rate of 9.375% per year, payable semi-annually in cash in arrears, which interest payments commenced in May 2007. The notes are guaranteed on an unsecured senior basis by Leap and each of its existing and future domestic subsidiaries (other than Cricket, which is the issuer of the notes, and LCW Wireless and Denali and their respective subsidiaries) that guarantee indebtedness for money borrowed of Leap, Cricket or any subsidiary guarantor. The notes and the guarantees are Leap s, Cricket s and the guarantors general senior unsecured obligations and rank equally in right of payment with all of Leap s, Cricket s and the guarantors existing and future unsubordinated unsecured indebtedness. The notes and the guarantees are effectively junior to Leap s, Cricket s and the guarantors existing and future secured obligations, including those under the Credit Agreement, to the extent of the value of the assets securing such obligations, as well as to future liabilities of Leap s and Cricket s subsidiaries that are not guarantors, and of LCW Wireless and Denali and their respective subsidiaries. In addition, the notes and the guarantees are senior in right of payment to any of Leap s, Cricket s and the guarantors future subordinated indebtedness (Note 9).

Prior to November 1, 2009, Cricket may redeem up to 35% of the aggregate principal amount of the notes at a redemption price of 109.375% of the principal amount thereof, plus accrued and unpaid interest and additional interest, if any, thereon to the redemption date, from the net cash proceeds of specified equity offerings. Prior to November 1, 2010, Cricket may redeem the notes, in whole or in part, at a redemption price equal to 100% of the principal amount thereof plus the applicable premium and any accrued and unpaid interest. The applicable premium is calculated as the greater of (i) 1.0% of the principal amount of such notes and (ii) the excess of (a) the present value at such date of redemption of (1) the redemption price of such notes at November 1, 2010 plus (2) all remaining required interest payments due on such notes through November 1, 2010 (excluding accrued but unpaid interest to the date of redemption), computed using a discount rate equal to the Treasury Rate plus 50 basis points, over (b) the principal amount of such notes. The notes may be redeemed, in whole or in part, at any time on or after November 1, 2010, at a redemption price of 104.688% and 102.344% of the principal amount thereof if redeemed during the twelve months ending October 31, 2011 and 2012, respectively, or at 100% of the principal amount if redeemed during the twelve months ending October 31, 2013 or thereafter, plus accrued and unpaid interest. If a change of control (as defined in the indenture governing the notes) occurs, each holder of the notes may require Cricket to repurchase all of such holder s notes at a purchase price equal to 101% of the principal amount of the notes, plus accrued and unpaid interest.

Affiliates of Highland Capital Management, L.P. (a beneficial stockholder of Leap and an affiliate of James D. Dondero, a director of Leap) purchased an aggregate of $25 million principal amount of unsecured senior notes in the Company s October 2006 private placement. In March 2007, these notes were sold by the Highland entities to a third party.

On June 6, 2007, Cricket issued an additional $350 million of unsecured senior notes due 2014 in a private placement to institutional buyers at an issue price of 106% of the principal amount. These notes are an additional issuance of the 9.375% unsecured senior notes due 2014 discussed above and are treated as a single class with these notes. The terms of these additional notes are identical to the existing notes, except for certain applicable transfer restrictions. The $21 million premium the Company received in connection with the issuance of the notes has been recorded in long-term debt in the condensed consolidated financial statements and will be amortized as a reduction to interest expense over the term of the notes. At June 30, 2007, the effective interest rate on the $350 million of unsecured senior notes was 8.3%, which included the effect of the premium amortization.

In connection with the private placement of the additional senior notes, the Company entered into a registration rights agreement with the purchasers in which the Company agreed to file a registration statement with the SEC to permit the holders to exchange or resell the notes. The Company must use reasonable best efforts to file such registration statement within 150 days after the issuance of the notes, have the registration statement declared effective within 270 days after the issuance of the notes and then consummate any exchange offer within 30 business days after the effective date of the registration statement. In the event that the registration statement is not filed or declared effective or the exchange offer is not consummated within these deadlines, the agreement provides that additional interest will accrue on the principal amount of the notes at a rate of 0.50% per annum during the 90-day period immediately following any of these events and will increase by 0.50% per annum at the end of each subsequent 90-day period, but in no event will the penalty rate exceed 1.50% per annum. There are no other alternative settlement methods and, other than the 1.50% per annum maximum penalty rate, the agreement contains no limit on the maximum potential amount of consideration that could be transferred in the event the Company does not meet the registration statement filing requirements. Due to the Company s restatement of its historical consolidated financial results as described in Note 2, the Company was unable to file the registration statement within 150 days after issuance of the notes. The Company intends to file the registration statement with the SEC as soon as is reasonably practicable and, based upon its anticipated registration statement filing date and the penalty rate applicable to the anticipated registration default event, the Company accrued additional interest expense of approximately $0.5 million as of September 30, 2007.

Note 7. Significant Acquisitions and Dispositions

In January 2007, the Company completed the sale of three wireless licenses that it was not using to offer commercial service for an aggregate sales price of $9.5 million, resulting in a net gain of $1.3 million. There were no significant acquisitions or dispositions during the three months ended June 30, 2007.

On June 22, 2007, the Company purchased approximately 20% of the outstanding membership units of a regional wireless service provider for an aggregate purchase price of $13.2 million. The Company uses the equity method to account for its investment. The Company s equity in net earnings or losses are recorded two months in arrears to facilitate the timely inclusion of such equity in net earnings or losses in the Company s condensed consolidated financial statements.

Note 8. Commitments and Contingencies

Patent Litigation

On June 14, 2006, the Company sued MetroPCS Communications, Inc. (MetroPCS) in the United States District Court for the Eastern District of Texas, Marshall Division, for infringement of U.S. Patent No. 6,813,497 *Method for Providing Wireless Communication Services and Network and System for Delivering Same,* issued to the Company. The Company s complaint seeks damages and an injunction against continued infringement. On August 3, 2006, MetroPCS (i) answered the complaint, (ii) raised a number of affirmative defenses, and (iii) together with certain related entities (referred to, collectively with MetroPCS, as the MetroPCS entities), counterclaimed against Leap, Cricket, numerous Cricket subsidiaries, ANB 1 License, Denali License, and current and former employees of Leap and Cricket, including the Company s Chief Executive Officer, S. Douglas Hutcheson. MetroPCS has since amended its complaint and Denali License has been dismissed, without prejudice, as a counterclaim defendant.

The countersuit now alleges claims for breach of contract, misappropriation, conversion and disclosure of trade secrets, fraud, misappropriation of confidential information and breach of confidential relationship, relating to information provided by MetroPCS to such employees, including prior to their employment by Leap, and asks the court to award damages, including punitive damages, impose an injunction enjoining the Company from participating in any auctions or sales of wireless spectrum, impose a constructive trust on the Company s business and assets for the benefit of the MetroPCS entities, transfer the Company s business and assets to MetroPCS and declare that the MetroPCS entities have not infringed U.S. Patent No. 6,813,497 and that such patent is invalid. MetroPCS s claims allege that the Company and the other counterclaim defendants improperly obtained, used and disclosed trade secrets and confidential information of the MetroPCS entities and breached confidentiality agreements with the MetroPCS entities. On September 22, 2006, Royal Street Communications, LLC (Royal Street), an entity affiliated with MetroPCS, filed an action in the United States District Court for the Middle District of Florida, Tampa Division, seeking a declaratory judgment that the Company s U.S. Patent No. 6,813,497 (the same patent that is the subject of the Company s infringement action against MetroPCS) is invalid and is not being infringed by Royal Street or its PCS systems. Upon the Company s request, the court has ordered that the Royal Street case be transferred to the United States District Court for the Eastern District of Texas due to the affiliation between MetroPCS and Royal Street, and Royal Street has filed a motion for reconsideration of the court s ruling. The Company intends to vigorously defend against the counterclaims filed by the MetroPCS entities and the action brought by Royal Street. Due to the complex nature of the legal and factual issues involved, however, the outcome of these matters is not presently determinable. If the MetroPCS entities were to prevail in these matters, it could have a material adverse effect on the Company s business, financial condition and results of operations.

On August 17, 2006, the Company was served with a complaint filed by certain MetroPCS entities, along with another affiliate, MetroPCS California, LLC, in the Superior Court of the State of California, which names Leap, Cricket, certain of its subsidiaries, and certain current and former employees of Leap and Cricket, including Mr. Hutcheson, as defendants. In the current complaint, the current plaintiffs allege unfair competition, misappropriation of trade secrets, intentional interference with contract (with respect to Cricket), breach of contract (with respect to Leap), intentional interference with prospective economic advantage and trespass, and asks the court to award damages, including punitive damages, and restitution. In response to demurrers by the Company and by the court, two of the plaintiffs have amended their complaint twice, dropped the other plaintiffs, and have been given leave to amend it a third time.

The Company intends to vigorously defend against these claims. Due to the complex nature of the legal and factual issues involved, however, the outcome of this matter is not presently determinable. If the MetroPCS entities were to prevail in this action, it could have a material adverse effect on the Company s business, financial condition and results of operations.

Table of Contents

On June 6, 2007, the Company was sued by Minerva Industries, Inc., or Minerva, in the United States District Court for the Eastern District of Texas, Marshall Division, for infringement of U.S. Patent No. 6,681,120 entitled *Mobile Entertainment and Communication Device.* Minerva alleges that certain handsets sold by the Company infringe a patent relating to mobile entertainment features, and the complaint seeks damages, an injunction and attorneys fees. The complaint also makes reference to a pending patent application relating to the asserted patent. On June 7, 2007, the Company was sued by Barry W. Thomas, or Thomas, in the United States District Court for the Eastern District of Texas, Marshall Division, for infringement of U.S. Patent No. 4,777,354 entitled *System for Controlling the Supply of Utility Services to Consumers.* Thomas alleges that certain handsets sold by the Company infringe a patent relating to actuator cards for controlling the supply of a utility service, and the complaint seeks damages and attorneys fees. The Company intends to vigorously defend against these matters brought by Minerva and Thomas. Due to the complex nature of the legal and factual issues involved, however, the outcome of these matters is not presently determinable. The Company has notified its handset suppliers of these lawsuits, the majority of which were also sued by Minerva and Thomas in other actions, and anticipates that it will tender the claims to certain of its handset suppliers. Based on its preliminary review, the Company anticipates that it will be indemnified by such suppliers for the costs of defense and any damages arising with respect to such lawsuits.

On June 8, 2007, the Company was sued by Ronald A. Katz Technology Licensing, L.P., or Katz, in the United States District Court for the District of Delaware, for infringement of 19 U.S. patents, 15 of which have expired. Katz alleges that the Company has infringed patents relating to automated telephone systems, including customer service systems, and the complaint seeks damages, an injunction, and attorneys fees. The Company intends to vigorously defend against this matter. Due to the complex nature of the legal and factual issues involved, however, the outcome of this matter is not presently determinable. If Katz were to prevail in this matter, it could have a material adverse effect on the Company s business, financial condition and results of operations.

American Wireless Group

On December 31, 2002, several members of American Wireless Group, LLC (AWG) filed a lawsuit against various officers and directors of Leap in the Circuit Court of the First Judicial District of Hinds County, Mississippi, referred to herein as the Whittington Lawsuit. Leap purchased certain FCC wireless licenses from AWG and paid for those licenses with shares of Leap stock. The complaint alleges that Leap failed to disclose to AWG material facts regarding a dispute between Leap and a third party relating to that party s claim that it was entitled to an increase in the purchase price for certain wireless licenses it sold to Leap. In their complaint, plaintiffs seek rescission and/or damages according to proof at trial of not less than the aggregate amount paid for the Leap stock (alleged in the complaint to have a value of approximately $57.8 million in June 2001 at the closing of the license sale transaction), plus interest, punitive or exemplary damages in the amount of not less than three times compensatory damages, and costs and expenses. Plaintiffs contend that the named defendants are the controlling group that was responsible for Leap s alleged failure to disclose the material facts regarding the third party dispute and the risk that the shares held by the plaintiffs might be diluted if the third party was successful with respect to its claim. The defendants in the Whittington Lawsuit filed a motion to compel arbitration or, in the alternative, to dismiss the Whittington Lawsuit. The motion noted that plaintiffs, as members of AWG, agreed to arbitrate disputes pursuant to the license purchase agreement, that they failed to plead facts that show that they are entitled to relief, that Leap made adequate disclosure of the relevant facts regarding the third party dispute and that any failure to disclose such information did not cause any damage to the plaintiffs. The court denied defendants motion and the defendants have appealed the denial of the motion to the state supreme court.

In a related action to the action described above, in June 2003, AWG filed a lawsuit in the Circuit Court of the First Judicial District of Hinds County, Mississippi, referred to herein as the AWG Lawsuit, against the same individual defendants named in the Whittington Lawsuit. The complaint generally sets forth the same claims made by the plaintiffs in the Whittington Lawsuit. In its complaint, plaintiff seeks rescission and/or damages according to proof at trial of not less than the aggregate amount paid for the Leap stock (alleged in the complaint to have a value of approximately $57.8 million in June 2001 at the closing of the license sale transaction), plus interest, punitive or exemplary damages in the amount of not less than three times compensatory damages, and costs and expenses. Defendants filed a motion to compel arbitration or, in the alternative, to dismiss the AWG Lawsuit, making arguments similar to those made in their motion to dismiss the Whittington Lawsuit. The motion was denied and the defendants have appealed the ruling to the state supreme court. AWG recently agreed to arbitrate this lawsuit and filed a motion in the Circuit Court seeking to stay the proceeding pending arbitration.

Although Leap is not a defendant in either the Whittington or AWG Lawsuits, several of the defendants have indemnification agreements with the Company. Leap s D&O insurers have not filed a reservation of rights letter and have been paying defense costs. Management believes that the defendants liability, if any, from the AWG and Whittington Lawsuits and any further indemnity claims of the defendants against Leap is not presently determinable.

Other

In addition to the matters described above, the Company is often involved in certain other claims, arising in the ordinary course of business, seeking monetary damages and other relief, none of which matters, based upon current information, is currently expected to have a material adverse effect on the Company s business, financial condition and results of operations.

Note 9. Guarantor Financial Information

The $1,100 million of unsecured senior notes issued by Cricket (the Issuing Subsidiary) are jointly and severally guaranteed on a full and unconditional basis by Leap (the Guarantor Parent Company) and certain of its direct and indirect wholly owned subsidiaries, including Cricket s subsidiaries that hold real property interests or wireless licenses, ANB 1 and ANB 1 License (collectively, the Guarantor Subsidiaries).

The indenture governing the notes limits, among other things, Leap s, Cricket s and the Guarantor Subsidiaries ability to: incur additional debt; create liens or other encumbrances; place limitations on distributions from restricted subsidiaries; pay dividends; make investments; prepay subordinated indebtedness or make other restricted payments; issue or sell capital stock of restricted subsidiaries; issue guarantees; sell assets; enter into transactions with its affiliates; and make acquisitions or merge or consolidate with another entity.

Condensed consolidating financial information of the Guarantor Parent Company, Issuing Subsidiary, Guarantor Subsidiaries, non-guarantor subsidiaries and total consolidated Leap and subsidiaries as of June 30, 2007 and December 31, 2006 and for the three and six months ended June 30, 2007 and 2006 is presented below. The equity method of accounting is used to account for ownership interests in subsidiaries, where applicable.

Condensed Consolidating Balance Sheet as of June 30, 2007 (as restated; unaudited and in thousands):

	Guarantor Parent Company	Issuing Subsidiary	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating and Eliminating Adjustments	Consolidated
Assets						
Cash and cash equivalents	$ 27	$ 287,211	$ 23,251	$ 15,843	$	$ 326,332
Short-term investments		357,444				357,444
Restricted cash, cash equivalents and short-term investments	7,654	4,454	639			12,747
Inventories		88,027	1,732	584		90,343
Other current assets	225	43,735	2,978	670		47,608
Total current assets	7,906	780,871	28,600	17,097		834,474
Property and equipment, net	72	950,961	143,222	52,147		1,146,402
Investments in and advances to affiliates and consolidated subsidiaries	1,780,013	2,021,196	160,666		(3,961,875)	
Wireless licenses		11,070	1,525,264	320,978		1,857,312
Goodwill		425,782				425,782
Other intangible assets, net		62,678		287		62,965
Deposits for wireless licenses		758				758
Other assets	1,117	44,863	2,217	2,433	(1,074)	49,556
Total assets	$ 1,789,108	$ 4,298,179	$ 1,859,969	$ 392,942	$ (3,962,949)	$ 4,377,249
Liabilities and Stockholders Equity						
Accounts payable and accrued liabilities	$ 6,336	$ 191,458	$ 10,154	$ 4,685	$	$ 212,633
Current maturities of long-term debt		9,000				9,000
Intercompany payables	4,451	160,666	25,458	5,092	(195,667)	
Other current liabilities		89,656	8,187	2,258	(1,074)	99,027
Total current liabilities	10,787	450,780	43,799	12,035	(196,741)	320,660
Long-term debt		2,002,250	310,535	292,149	(562,685)	2,042,249
Deferred tax liabilities		9,093	142,937			152,030
Other long-term liabilities		44,492	4,362	1,187		50,041

Total liabilities	10,787	2,506,615	501,633	305,371	(759,426)	2,564,980
Minority interests		11,551			22,397	33,948
Membership units subject to repurchase				20,098	(20,098)	
Stockholders equity	1,778,321	1,780,013	1,358,336	67,473	(3,205,822)	1,778,321
Total liabilities and stockholders equity	$ 1,789,108	$ 4,298,179	$ 1,859,969	$ 392,942	$ (3,962,949)	$ 4,377,249

Condensed Consolidating Balance Sheet as of December 31, 2006 (as restated, in thousands):

	Guarantor Parent Company	Issuing Subsidiary	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating and Eliminating Adjustments	Consolidated
Assets						
Cash and cash equivalents	$ 206	$ 316,398	$ 12,842	$ 43,366	$	$ 372,812
Short-term investments		66,400				66,400
Restricted cash, cash equivalents and short-term investments	8,093	4,258	495	735		13,581
Inventories		87,303	2,080	802		90,185
Other current assets	105	50,307	2,097	472		52,981
Total current assets	8,404	524,666	17,514	45,375		595,959
Property and equipment, net	117	892,859	147,521	38,024		1,078,521
Investments in and advances to affiliates and consolidated subsidiaries	1,779,514	2,013,023	144,966		(3,937,503)	
Wireless licenses			1,527,574	36,384		1,563,958
Assets held for sale			8,070			8,070
Goodwill		425,782				425,782
Other intangible assets, net		79,409		419		79,828
Deposits for wireless licenses				274,084		274,084
Other assets	815	45,616	11,259	1,827	(772)	58,745
Total assets	$ 1,788,850	$ 3,981,355	$ 1,856,904	$ 396,113	$ (3,938,275)	$ 4,084,947
Liabilities and Stockholders Equity						
Accounts payable and accrued liabilities	$ 6,792	$ 274,764	$ 25,306	$ 10,231	$	$ 317,093
Current maturities of long-term debt		9,000				9,000
Intercompany payables	10,265	144,965	11,844	9,893	(176,967)	
Other current liabilities		80,265	4,579	604	(773)	84,675
Total current liabilities	17,057	508,994	41,729	20,728	(177,740)	410,768
Long-term debt		1,636,500	277,955	271,443	(509,398)	1,676,500
Deferred tax liabilities		9,057	139,278			148,335
		42,467	4,155	986		47,608

Other long-term liabilities						
Total liabilities	17,057	2,197,018	463,117	293,157	(687,138)	2,283,211
Minority interests		4,821			25,122	29,943
Stockholders equity	1,771,793	1,779,516	1,393,787	102,956	(3,276,259)	1,771,793
Total liabilities and stockholders equity	$ 1,788,850	$ 3,981,355	$ 1,856,904	$ 396,113	$ (3,938,275)	$ 4,084,947

Table of Contents

Condensed Consolidating Statement of Operations for the Three Months Ended June 30, 2007 (as restated; unaudited and in thousands):

	Guarantor Parent Company	Issuing Subsidiary	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating and Eliminating Adjustments	Consolidated
Revenues:						
Service revenues	$	$ 303,719	$ 35,280	$ 8,254	$	$ 347,253
Equipment revenues		59,978	3,108	1,280	(13,705)	50,661
Other revenues		13	13,593		(13,606)	
Total revenues		363,710	51,981	9,534	(27,311)	397,914
Operating expenses:						
Cost of service (exclusive of items shown separately below)		(87,749)	(12,809)	(3,594)	13,593	(90,559)
Cost of equipment		(89,546)	(11,595)	(3,382)	13,705	(90,818)
Selling and marketing		(37,970)	(6,805)	(2,236)		(47,011)
General and administrative	(492)	(55,084)	(9,178)	(1,666)	13	(66,407)
Depreciation and amortization	(23)	(64,259)	(5,984)	(2,149)		(72,415)
Total operating expenses	(515)	(334,608)	(46,371)	(13,027)	27,311	(367,210)
Operating income (loss)	(515)	29,102	5,610	(3,493)		30,704
Minority interests in consolidated subsidiaries		(369)			1,042	673
Equity in net income (loss) of consolidated subsidiaries	10,143	(20,006)			9,863	
Interest income	10	24,575	174	203	(17,828)	7,134
Interest expense		(26,696)	(9,247)	(8,387)	17,240	(27,090)
Income (loss) before income taxes	9,638	6,606	(3,463)	(11,677)	10,317	11,421
Income tax (expense) benefit		3,537	(5,320)			(1,783)
Net income (loss)	$ 9,638	$ 10,143	$ (8,783)	$ (11,677)	$ 10,317	$ 9,638

Condensed Consolidating Statement of Operations for the Six Months Ended June 30, 2007 (as restated; unaudited and in thousands):

	Guarantor Parent Company	Issuing Subsidiary	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating and Eliminating Adjustments	Consolidated
Revenues:						
Service revenues	$	$ 591,664	$ 63,466	$ 13,814	$	$ 668,944
Equipment revenues		139,425	7,620	2,776	(27,426)	122,395
Other revenues		26	26,621		(26,647)	
Total revenues		731,115	97,707	16,590	(54,073)	791,339
Operating expenses:						
Cost of service (exclusive of items shown separately below)		(175,798)	(25,155)	(6,667)	26,621	(180,999)
Cost of equipment		(210,173)	(22,492)	(8,244)	27,426	(213,483)
Selling and marketing	(8)	(77,732)	(13,402)	(4,638)		(95,780)
General and administrative	(813)	(110,113)	(17,892)	(2,849)	26	(131,641)
Depreciation and amortization	(23)	(125,146)	(11,990)	(4,056)		(141,215)
Total operating expenses	(844)	(698,962)	(90,931)	(26,454)	54,073	(763,118)
Net gain (loss) on sale of wireless licenses and disposal of operating assets		(311)	1,251			940
Operating income (loss)	(844)	31,842	8,027	(9,864)		29,161
Minority interests in consolidated subsidiaries		(549)			2,801	2,252
Equity in net loss of consolidated subsidiaries	(13,762)	(44,803)			58,565	
Interest income	20	45,754	350	579	(34,284)	12,419
Interest expense		(52,106)	(17,578)	(17,598)	33,696	(53,586)
Other expense, net		(625)	(12)			(637)
Loss before income taxes	(14,586)	(20,487)	(9,213)	(26,883)	60,778	(10,391)
Income tax (expense) benefit		6,725	(10,920)			(4,195)
Net loss	$ (14,586)	$ (13,762)	$ (20,133)	$ (26,883)	$ 60,778	$ (14,586)

Table of Contents

Condensed Consolidating Statement of Operations for the Three Months Ended June 30, 2006 (as restated; unaudited and in thousands):

	Guarantor Parent Company	Issuing Subsidiary	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating and Eliminating Adjustments	Consolidated
Revenues:						
Service revenues	$	$ 221,763	$ 5,397	$	$	$ 227,160
Equipment revenues		51,861	1,597		(3,159)	50,299
Other revenues		156	9,937		(10,093)	
Total revenues		273,780	16,931		(13,252)	277,459
Operating expenses:						
Cost of service (exclusive of items shown separately below)		(66,601)	(4,591)		9,937	(61,255)
Cost of equipment		(64,683)	(3,872)		3,159	(65,396)
Selling and marketing		(29,646)	(6,296)			(35,942)
General and administrative	(1,111)	(41,052)	(4,569)		156	(46,576)
Depreciation and amortization	(24)	(51,624)	(1,689)			(53,337)
Impairment of indefinite-lived intangible assets			(3,211)			(3,211)
Total operating expenses	(1,135)	(253,606)	(24,228)		13,252	(265,717)
Operating income (loss)	(1,135)	20,174	(7,297)			11,742
Minority interests in consolidated subsidiaries		(134)				(134)
Equity in net income (loss) of consolidated subsidiaries	3,926	(12,353)			8,427	
Interest income	9	7,940	146		(2,562)	5,533
Interest expense		(8,423)	(2,562)		2,562	(8,423)
Other expense, net		(5,918)				(5,918)
Income (loss) before income taxes	2,800	1,286	(9,713)		8,427	2,800
Income tax (expense) benefit		2,640	(2,640)			
Net income (loss)	$ 2,800	$ 3,926	$ (12,353)	$	$ 8,427	$ 2,800

Condensed Consolidating Statement of Operations for the Six Months Ended June 30, 2006 (as restated; unaudited and in thousands):

	Guarantor Parent Company	Issuing Subsidiary	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating and Eliminating Adjustments	Consolidated
Revenues:						
Service revenues	$	$ 438,304	$ 6,941	$	$	$ 445,245
Equipment revenues		115,081	2,946		(3,963)	114,064
Other revenues		208	19,494		(19,702)	
Total revenues		553,593	29,381		(23,665)	559,309
Operating expenses:						
Cost of service (exclusive of items shown separately below)		(130,278)	(6,681)		19,494	(117,465)
Cost of equipment		(134,313)	(7,023)		3,963	(137,373)
Selling and marketing		(55,805)	(9,239)			(65,044)
General and administrative	(2,121)	(84,217)	(9,536)		208	(95,666)
Depreciation and amortization	(54)	(104,974)	(2,345)			(107,373)
Impairment of indefinite-lived intangible assets			(3,211)			(3,211)
Total operating expenses	(2,175)	(509,587)	(38,035)		23,665	(526,132)
Operating income (loss)	(2,175)	44,006	(8,654)			33,177
Minority interests in consolidated subsidiaries		(209)				(209)
Equity in net income (loss) of consolidated subsidiaries	24,239	(18,507)			(5,732)	
Interest income	17	13,190	184		(3,664)	9,727
Interest expense		(15,854)	(3,664)		3,664	(15,854)
Other expense, net		(5,381)	(2)			(5,383)
Income (loss) before income taxes and cumulative effect of change in accounting principle	22,081	17,245	(12,136)		(5,732)	21,458
Income tax (expense) benefit		6,371	(6,371)			
Income (loss) before cumulative effect of change in accounting principle	22,081	23,616	(18,507)		(5,732)	21,458
Cumulative effect of change in accounting principle		623				623
Net income (loss)	$ 22,081	$ 24,239	$ (18,507)	$	$ (5,732)	$ 22,081

32

Table of Contents

Condensed Consolidating Statement of Cash Flows for the Six Months Ended June 30, 2007 (as restated; unaudited and in thousands):

	Guarantor Parent Company	Issuing Subsidiary	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating and Eliminating Adjustments	Consolidated
Operating activities:						
Net cash provided by (used in) operating activities	$ (1,159)	$ 134,143	$ (4,514)	$ (19,675)	$	$ 108,795
Investing activities:						
Purchases of and changes in prepayments for property and equipment		(208,425)	(7,770)	(12,031)		(228,226)
Purchases of and deposits for wireless licenses		(890)	(1,663)	192		(2,361)
Proceeds from sale of wireless licenses			9,500			9,500
Purchases of investments		(380,743)				(380,743)
Sales and maturities of investments		91,360				91,360
Investments in and advances to affiliates and consolidated subsidiaries	(7,588)	(4,706)			7,588	(4,706)
Purchase of membership units		(13,182)				(13,182)
Other	980	(2)	(144)			834
Net cash used in investing activities	(6,608)	(516,588)	(77)	(11,839)	7,588	(527,524)
Financing activities:						
Proceeds from long-term debt		370,480	15,000	4,000	(19,000)	370,480
Issuance of related party debt		(19,000)			19,000	
Repayment of long-term debt		(4,500)				(4,500)
Payment of debt issuance costs		(1,310)		(9)		(1,319)
Proceeds from issuance of common stock, net	7,588	7,588			(7,588)	7,588
Net cash provided by financing activities	7,588	353,258	15,000	3,991	(7,588)	372,249

Net increase (decrease) in cash and cash equivalents	(179)	(29,187)	10,409	(27,523)		(46,480)
Cash and cash equivalents at beginning of period	206	316,398	12,842	43,366		372,812
Cash and cash equivalents at end of period	$ 27	$ 287,211	$ 23,251	$ 15,843	$	$ 326,332

Table of Contents

Condensed Consolidating Statement of Cash Flows for the Six Months Ended June 30, 2006 (as restated; unaudited and in thousands):

	Guarantor Parent Company	Issuing Subsidiary	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating and Eliminating Adjustments	Consolidated
Operating activities:						
Net cash provided by operating activities	$ 288	$ 94,326	$ 6,405	$	$	$ 101,019
Investing activities:						
Purchases of and changes in prepayments for property and equipment		(98,771)	(82,550)			(181,321)
Purchases of and deposits for wireless licenses			(532)			(532)
Purchases of investments		(88,535)				(88,535)
Sales and maturities of investments		123,657				123,657
Investments in and advances to affiliates and consolidated subsidiaries	(506)	(6,663)			7,169	
Other	(101)					(101)
Net cash used in investing activities	(607)	(70,312)	(83,082)		7,169	(146,832)
Financing activities:						
Proceeds from long-term debt		900,000	71,406		(71,406)	900,000
Issuance of related party debt		(71,406)			71,406	
Repayment of long-term debt		(594,444)				(594,444)
Payment of debt issuance costs		(3,268)				(3,268)
Payment of fees related to forward equity sale	(219)					(219)
Capital contributions, net		506	8,885		(7,169)	2,222
Proceeds from issuance of common stock, net	725					725
Net cash provided by financing activities	506	231,388	80,291		(7,169)	305,016
Net increase in cash and cash equivalents	187	255,402	3,614			259,203
Cash and cash equivalents at beginning of period	46	291,456	1,571			293,073

Cash and cash equivalents at end of period	$	233	$	546,858	$	5,185	$		$		$	552,276

34

Table of Contents

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations.

As used in this report, unless the context suggests otherwise, the terms we, our, ours, and us refer to Leap Wireless International, Inc., or Leap, and its subsidiaries, including Cricket Communications, Inc., or Cricket, and Alaska Native Broadband 1 License, LLC, or ANB 1 License. Leap, Cricket and ANB 1 License and their subsidiaries are sometimes collectively referred to herein as the Company. Unless otherwise specified, information relating to population and potential customers, or POPs, is based on 2007 population estimates provided by Claritas Inc.

The following information should be read in conjunction with the unaudited condensed consolidated financial statements and notes thereto included in Item 1 of this Quarterly Report and the audited consolidated financial statements and notes thereto and Management s Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the year ended December 31, 2006 filed with the Securities and Exchange Commission, or SEC, on March 1, 2007, as amended by Amendment No. 1 thereto.

Cautionary Statement Regarding Forward-Looking Statements

Except for the historical information contained herein, this report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements reflect management s current forecast of certain aspects of our future. You can identify most forward-looking statements by forward-looking words such as believe, think, may, could, will, estimate, continue, anticipate, intend, seek, plan, exp similar expressions in this report. Such statements are based on currently available operating, financial and competitive information and are subject to various risks, uncertainties and assumptions that could cause actual results to differ materially from those anticipated or implied in our forward-looking statements. Such risks, uncertainties and assumptions include, among other things:

- our ability to attract and retain customers in an extremely competitive marketplace;
- changes in economic conditions that could adversely affect the market for wireless services;
- the impact of competitors initiatives;
- our ability to successfully implement product offerings and execute market expansion plans;
- delays in our market expansion plans, including delays resulting from any difficulties in funding such expansion through cash from operations, our revolving credit facility or additional capital, delays in the availability of network equipment and handsets for the AWS spectrum we acquired in Auction #66, or delays by existing U.S. government and other private sector wireless operations in clearing the AWS spectrum, some of which users are permitted to continue using the spectrum for several years**;**
- our ability to attract, motivate and retain an experienced workforce;
- our ability to comply with the covenants in our senior secured credit facilities, indenture and any future credit agreement, indenture or similar instrument;
- failure of our network or information technology systems to perform according to expectations; and
- other factors detailed in Part II Item 1A. Risk Factors below.

All forward-looking statements in this report should be considered in the context of these risk factors. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. In light of these risks and uncertainties, the forward-looking events and circumstances discussed in this report may not occur and actual results could differ materially from those anticipated or implied in the forward-looking statements. Accordingly, users of this report are cautioned not to place undue reliance on the forward-looking statements.

Overview

Restatement of Previously Reported Consolidated Financial Information

The accompanying Management s Discussion and Analysis of Financial Condition and Results of Operations gives effect to certain restatement adjustments made to the previously reported consolidated financial statements for the year ended December 31, 2006 and condensed consolidated financial statements for the quarterly periods ended June 30, 2007 and 2006. See Note 2 to the condensed consolidated financial statements in Part I Item 1. Financial Statements of this report for additional information.

Company Overview

We are a wireless communications carrier that offers digital wireless service in the U.S. under the Cricket® and Jump™ Mobile brands. Our Cricket service offers customers unlimited wireless service for a flat monthly rate without requiring a fixed-term contract or credit check. Our Jump Mobile service offers customers a per-minute prepaid wireless service.

Cricket and Jump Mobile services are offered by Cricket, a wholly owned subsidiary of Leap, and by ANB 1 License, an indirect wholly owned subsidiary of Cricket. Cricket and Jump Mobile services are also offered in Oregon by LCW Wireless Operations, LLC, or LCW Operations, a designated entity under Federal Communications Commission, or FCC, regulations. Cricket owns an indirect 73.3% non-controlling interest in LCW Operations through a 73.3% non-controlling interest in LCW Wireless, LLC, or LCW Wireless. Cricket also owns an 82.5% non-controlling interest in Denali Spectrum, LLC, or Denali, which purchased a wireless license in the Great Lakes area in the FCC s auction for Advanced Wireless Service licenses, or Auction #66, as a designated entity through its wholly owned subsidiary, Denali Spectrum License, LLC, or Denali License. In March 2007, Cricket acquired the remaining 25% of the membership interests in Alaska Native Broadband 1, LLC, or ANB 1, following the exercise by Alaska Native Broadband, LLC of its option to sell its entire 25% controlling interest in ANB 1 to Cricket for $4.7 million. As a result of the acquisition, ANB 1 and its wholly owned subsidiary, ANB 1 License, became direct and indirect wholly owned subsidiaries, respectively, of Cricket.

At June 30, 2007, Cricket and Jump Mobile services were offered in 23 states and had approximately 2,675,000 customers. As of June 30, 2007, we, LCW Operations and Denali License owned wireless licenses covering an aggregate of 184.3 million POPs (adjusted to eliminate duplication from overlapping licenses), and the combined network footprint in our operating markets covered approximately 51 million POPs, which includes new markets in Raleigh, North Carolina, Charleston, South Carolina, and Rochester, New York. The licenses we and Denali purchased in Auction #66, together with the existing licenses we own, provide 20MHz of coverage and the opportunity to offer enhanced data services in almost all markets in which we currently operate or are building out, assuming Denali License were to make available to us certain of its spectrum.

In addition to the 51 million POPs we currently cover with our combined network footprint, we estimate that we and Denali License hold licenses in markets that cover up to approximately 85 million additional POPs that are suitable for Cricket service. We expect that we and Denali License will offer Cricket service to a substantial majority of these additional POPs over time. We and Denali License have already begun the build-out of the Auction #66 markets and expect to launch a significant number of markets in 2008 and 2009. We and Denali License may also develop some of the licenses covering these additional POPs through partnerships with others.

We continue to seek additional opportunities to enhance our current market clusters and expand into new geographic markets by participating in FCC spectrum auctions, acquiring spectrum and related assets from third parties, and/or participating in new partnerships or joint ventures. We also expect to continue to look for opportunities to optimize the value of our spectrum portfolio. Because some of the licenses that we and Denali License hold include large regional areas covering both rural and metropolitan communities, we and Denali License may sell some of this spectrum and pursue the deployment of alternative products or services in portions of this spectrum.

Our principal sources of liquidity are our existing unrestricted cash, cash equivalents and short-term investments, cash generated from operations, and cash available from borrowings under our $200 million revolving credit facility, which was undrawn as of June 30, 2007. We may also generate liquidity through capital market transactions or the sale of assets that are not material to or are not required for the ongoing operation of our business. See Liquidity and Capital Resources below.

Among the most significant factors affecting our financial condition and performance from period to period are our new market expansions, growth in customers and the impacts of such activities on our revenues and operating expenses. Beginning in 2006 and through the quarter ended June 30, 2007, we and our joint ventures continued expanding existing market footprints and expanded into 18 new markets, increasing the number of potential customers covered by our networks from approximately 27.7 million covered POPs as of December 31, 2005 to approximately 48 million covered POPs as of December 31, 2006, to approximately 51 million covered POPs as of June 30, 2007. This network expansion, together with organic customer growth in our existing markets, has resulted in substantial additions of new customers, as our total end-of-period customers increased from 1.67 million customers as of December 31, 2005, to 2.23 million customers as of December 31, 2006, to 2.67 million customers as of June 30, 2007. In addition, our total revenues have increased from $957.8 million for fiscal 2005 to $1.17 billion for fiscal 2006, and from $559.3 million for the six months ended June 30, 2006 to $791.3 million for the six months ended June 30, 2007. In 2006 and 2007, we also introduced several higher-priced, higher-value service plans which have helped increase average service revenue per user per month over time, as customer acceptance of the higher-priced plans has been favorable.

As our business activities have expanded, our operating expenses have also grown, including increases in cost of service reflecting: the increase in customers and the broader variety of products and services provided to such customers; increased depreciation expense related to our expanded networks; and increased selling and marketing expenses and general and administrative expenses generally attributable to new market launches, selling and marketing to a broader potential customer base, and expenses required to support the administration of our growing business. In particular, total operating expenses increased from $901.4 million for fiscal 2005 to $1.17 billion for fiscal 2006, and from $526.1 million for the six months ended June 30, 2006 to $763.1 million for the six months ended June 30, 2007. We also incurred substantial additional indebtedness to finance the costs of our business expansion and acquisitions of additional wireless licenses in 2006 and 2007. As a result, our interest expense has increased from $30.1 million for fiscal 2005 to $61.3 million for fiscal 2006, and from $15.9 million for the six months ended June 30, 2006 to $53.6 million for the six months ended June 30, 2007.

Primarily as a result of the factors described above, our net income of $30.7 million for fiscal 2005 decreased to a net loss of $24.4 million for fiscal 2006, and our net income of $22.1 million for the six months ended June 30, 2006 decreased to a net loss of $14.6 million for the six months ended June 30, 2007.

We expect that we will continue to build out and launch new markets and pursue other strategic expansion activities for the next several years. We intend to be disciplined as we pursue these expansion efforts and to remain focused on our position as a low-cost leader in wireless telecommunications. We expect to achieve increased revenues and incur higher operating expenses as our existing business grows and as we build out and after we launch service in new markets. Large-scale construction projects for the build-out of our new markets will require significant capital expenditures and may suffer cost overruns. Any such significant capital expenditures or increased operating expenses would decrease earnings, operating income before depreciation and amortization, or OIBDA, and free cash flow for the periods in which we incur such costs. However, we are willing to incur such expenditures because we expect our expansion activities will be beneficial to our business and create additional value for our stockholders.

Table of Contents

Results of Operations

Operating Items

The following tables summarize operating data for our consolidated operations for the three and six months ended June 30, 2007 and 2006 (in thousands, except percentages):

	Three Months Ended June 30,					
	2007 (As Restated)	% of 2007 Service Revenues	2006 (As Restated)	% of 2006 Service Revenues	Change from Prior Year Dollars	Change from Prior Year Percent
Revenues:						
Service revenues	$ 347,253		$ 227,160		$ 120,093	52.9%
Equipment revenues	50,661		50,299		362	0.7%
Total revenues	397,914		277,459		120,455	43.4%
Operating expenses:						
Cost of service	90,559	26.1%	61,255	27.0%	29,304	47.8%
Cost of equipment	90,818	26.2%	65,396	28.8%	25,422	38.9%
Selling and marketing	47,011	13.5%	35,942	15.8%	11,069	30.8%
General and administrative	66,407	19.1%	46,576	20.5%	19,831	42.6%
Depreciation and amortization	72,415	20.9%	53,337	23.5%	19,078	35.8%
Impairment of indefinite-lived intangible assets		0.0%	3,211	1.4%	(3,211)	(100)%
Total operating expenses	367,210	105.7%	265,717	117.0%	101,493	38.2%
Operating income	$ 30,704	8.8%	$ 11,742	5.2%	$ 18,962	161.5%

	Six Months Ended June 30,					
	2007 (As Restated)	% of 2007 Service Revenues	2006 (As Restated)	% of 2006 Service Revenues	Change from Prior Year Dollars	Change from Prior Year Percent
Revenues:						
Service revenues	$ 668,944		$ 445,245		$ 223,699	50.2%
Equipment revenues	122,395		114,064		8,331	7.3%

Total revenues	791,339		559,309		232,030	41.5%
Operating expenses:						
Cost of service	180,999	27.1%	117,465	26.4%	63,534	54.1%
Cost of equipment	213,483	31.9%	137,373	30.9%	76,110	55.4%
Selling and marketing	95,780	14.3%	65,044	14.6%	30,736	47.3%
General and administrative	131,641	19.7%	95,666	21.5%	35,975	37.6%
Depreciation and amortization	141,215	21.1%	107,373	24.1%	33,842	31.5%
Impairment of indefinite-lived intangible assets		0.0%	3,211	0.7%	(3,211)	(100)%
Total operating expenses	763,118	114.1%	526,132	118.2%	236,986	45.0%
Net gain on sale of wireless licenses and disposal of operating assets	940	0.1%		0.0%	940	100.0%
Operating income	$ 29,161	4.4%	$ 33,177	7.5%	$ (4,016)	(12.1)%

The following tables summarize customer activity for the three and six months ended June 30, 2007 and 2006:

	2007	2006	Change Amount	Change Percent
For the Three Months Ended June 30:				
Gross customer additions	462,434	253,033	209,401	82.8%
Net customer additions	126,791	57,683	69,108	119.8%
Weighted-average number of customers	2,586,900	1,790,232	796,668	44.5%
As of June 30:				
Total customers	2,674,963	1,836,390	838,573	45.7%

	2007	2006	Change Amount	Change Percent
For the Six Months Ended June 30:				
Gross customer additions	1,027,489	531,403	496,086	93.4%
Net customer additions	445,137	168,092	277,045	164.8%
Weighted-average number of customers	2,490,030	1,754,290	735,740	41.9%

Three and Six Months Ended June 30, 2007 Compared to Three and Six Months Ended June 30, 2006

Service Revenues

Service revenues increased $120.1 million, or 52.9%, for the three months ended June 30, 2007 compared to the corresponding period of the prior year. This increase resulted from a 44.5% increase in average total customers due to new market launches and existing market customer growth and a 5.8% increase in average monthly revenues per customer. The increase in average monthly revenues per customer was due primarily to the continued increase in customer adoption of our higher-end service plans.

Service revenues increased $223.7 million, or 50.2%, for the six months ended June 30, 2007 compared to the corresponding period of the prior year. This increase resulted from a 41.9% increase in average total customers due to new market launches and existing market customer growth and a 5.8% increase in average monthly revenues per customer. The increase in average monthly revenues per customer was due primarily to the continued increase in customer adoption of our higher-end service plans.

Equipment Revenues

Equipment revenues increased $0.4 million, or 0.7%, for the three months ended June 30, 2007 compared to the corresponding period of the prior year. An increase of 67.5% in handset sales volume was largely offset by increases in promotional incentives for customers and an increased shift in handset sales to our exclusive indirect distribution channel.

Equipment revenues increased $8.3 million, or 7.3%, for the six months ended June 30, 2007 compared to the corresponding period of the prior year. An increase of 80.7% in handset sales volume was largely offset by increases in promotional incentives for customers and an increased shift in handset sales to our exclusive indirect distribution channel.

Cost of Service

Cost of service increased $29.3 million, or 47.8%, for the three months ended June 30, 2007 compared to the corresponding period of the prior year. As a percentage of service revenues, cost of service decreased to 26.1% from 27.0% in the prior year period. Variable product costs increased by 2.5% as a percentage of service revenues due to increased customer usage of our value-added services. Network infrastructure costs declined by 2.1% as a percentage of service revenues due in part to a reduction in liabilities for cell site remediation costs and benefits of scale. During the second quarter, we negotiated amendments to agreements that reduced our liability for the removal of equipment on certain of our cell sites at the end of the lease term, resulting in a net gain of $6.1 million. In addition, there was a 1.3% decrease in labor and related costs as a percentage of service revenues due to the increase in service revenues and consequent benefits of scale.

Cost of service increased $63.5 million, or 54.1%, for the six months ended June 30, 2007 compared to the corresponding period of the prior year. As a percentage of service revenues, cost of service increased to 27.1% from 26.4% in the prior year period. Variable product costs increased by 1.8% as a percentage of service revenues due to increased customer usage of our value-added services. Network infrastructure costs decreased by 0.1% as a percentage of service revenues due to a reduction in liabilities for cell site remediation costs and benefits of scale, largely offset by increased lease and network transport costs associated with the launch of our new markets. During the second quarter, we negotiated amendments to agreements that reduced our liability for the removal of equipment on certain of our cell sites at the end of the lease term, resulting in a net gain of $6.1 million. In addition, there was a 1.0% decrease in labor and related costs as a percentage of service revenues due to the increase in service revenues and consequent benefits of scale.

Cost of Equipment

Cost of equipment increased $25.4 million, or 38.9%, for the three months ended June 30, 2007 compared to the corresponding period of the prior year. This increase was primarily attributable to a 67.5% increase in handset sales volume.

Cost of equipment increased $76.1 million, or 55.4%, for the six months ended June 30, 2007 compared to the corresponding period of the prior year. This increase was primarily attributable to an 80.7% increase in handset sales volume.

Selling and Marketing Expenses

Selling and marketing expenses increased $11.1 million, or 30.8%, for the three months ended June 30, 2007 compared to the corresponding period of the prior year. As a percentage of service revenues, such expenses decreased to 13.5% from 15.8% in the prior year period. This decrease was due to a 1.2% decrease in media and advertising costs as a percentage of service revenues reflecting the large new market launches in the prior year quarter, including in the Houston, Cincinnati, and San Antonio areas, and the advertising costs associated with those launches. This decrease was also attributed to a 1.0% decrease in store and staffing costs as a percentage of service revenues due to the increase in service revenues and consequent benefits of scale.

Selling and marketing expenses increased $30.7 million, or 47.3%, for the six months ended June 30, 2007 compared to the corresponding period of the prior year. As a percentage of service revenues, such expenses decreased to 14.3% from 14.6% in the prior year period. This decrease was attributed to a 0.5% decrease in store and staffing costs as a percentage of service revenues due to the increase in service revenues and consequent benefits of scale, partially offset by a 0.2% increase in media and advertising costs as a percentage of service revenues.

General and Administrative Expenses

General and administrative expenses increased $19.8 million, or 42.6%, for the three months ended June 30, 2007 compared to the corresponding period of the prior year. As a percentage of service revenues, such expenses decreased to 19.1% from 20.5% in the prior year period. This decrease was primarily due to the increase in service revenues and consequent benefits of scale.

General and administrative expenses increased $36.0 million, or 37.6%, for the six months ended June 30, 2007 compared to the corresponding period of the prior year. As a percentage of service revenues, such expenses decreased to 19.7% from 21.5% in the prior year period. This decrease was primarily due to the increase in service revenues and consequent benefits of scale.

Depreciation and Amortization

Depreciation and amortization expense increased $19.1 million, or 35.8%, for the three months ended June 30, 2007 compared to the corresponding period of the prior year. The increase in the dollar amount of depreciation and amortization expense was due primarily to the build-out of our new markets and the improvement and expansion of our existing markets. As a percentage of service revenues, such expenses decreased as compared to the corresponding period of the prior year.

Depreciation and amortization expense increased $33.8 million, or 31.5%, for the six months ended June 30, 2007 compared to the corresponding period of the prior year. The increase in the dollar amount of depreciation and amortization expense was due primarily to the build-out of our new markets and the improvement and expansion of our existing markets. As a percentage of service revenues, such expenses decreased as compared to the corresponding period of the prior year.

Non-Operating Items

The following tables summarize non-operating data for our consolidated operations for the three and six months ended June 30, 2007 and 2006 (in thousands):

	Three Months Ended June 30,		
	2007 (As Restated)	2006 (As Restated)	Change
Minority interests in consolidated subsidiaries	$ 673	$ (134)	$ 807
Interest income	7,134	5,533	1,601
Interest expense	(27,090)	(8,423)	(18,667)
Other expense, net		(5,918)	5,918
Income tax expense	(1,783)		(1,783)

	Six Months Ended June 30,		
	2007 (As Restated)	2006 (As Restated)	Change
Minority interests in consolidated subsidiaries	$ 2,252	$ (209)	$ 2,461
Interest income	12,419	9,727	2,692
Interest expense	(53,586)	(15,854)	(37,732)
Other expense, net	(637)	(5,383)	(4,746)
Income tax expense	(4,195)		(4,195)

Three and Six Months Ended June 30, 2007 Compared to Three and Six Months Ended June 30, 2006

Minority Interests

Minority interests in consolidated subsidiaries primarily reflects the share of net gains or losses allocated to the other members of certain consolidated entities, as well as accretion expense associated with certain members put options.

Interest Income

Interest income increased $1.6 million for the three months ended June 30, 2007 compared to the corresponding period of the prior year. This increase was primarily due to an increase in our short-term investments made with the proceeds received from our issuance of $350 million of unsecured senior notes during the current quarter.

Interest income increased $2.7 million for the six months ended June 30, 2007 compared to the corresponding period of the prior year. This increase was primarily due to an increase in our short-term investments made with the proceeds received from our issuance of $350 million of unsecured senior notes during the current quarter.

Interest Expense

Interest expense increased $18.7 million for the three months ended June 30, 2007 compared to the corresponding period of the prior year. The increase in interest expense resulted primarily from our issuance of $750 million of unsecured senior notes in October 2006 and from our issuance of $350 million of unsecured senior notes on June 6, 2007. We capitalized $11.2 million of interest during the three months ended June 30, 2007 compared to $4.5 million during the corresponding period of the prior year. We capitalize interest costs associated with our wireless licenses and property and equipment during the build-out of new markets. The amount of such capitalized interest depends on the carrying values of the licenses and property and equipment involved in those markets and the duration of the build-out. We expect capitalized interest to continue to be significant during the build-out of our planned new markets during the remainder of 2007 and beyond. See Liquidity and Capital Resources below.

Interest expense increased $37.7 million for the six months ended June 30, 2007 compared to the corresponding period of the prior year. The increase in interest expense resulted primarily from the increase in the amount of the term loan under our amended and restated senior secured credit agreement by approximately $307 million during the second quarter of 2006. Further, the increase in interest expense resulted from our issuance of $750 million of unsecured senior notes in October 2006 and from our issuance of $350 million of unsecured senior notes on June 6, 2007. We capitalized $21.9 million of interest during the six months ended June 30, 2007 compared to $8.9 million during the corresponding period of the prior year. We capitalize interest costs associated with our wireless licenses and property and equipment during the build-out of new markets. The amount of such capitalized interest depends on the carrying values of the licenses and property and equipment involved in those markets and the duration of the build-out. We expect capitalized interest to continue to be significant during the build-out of our planned new markets during the remainder of 2007 and beyond. See Liquidity and Capital Resources below.

Income Tax Expense

Our provisions for income taxes during the interim reporting periods in 2005 and 2006 were based on estimates of the annual effective tax rate for the full fiscal year. The annual effective tax rate computation includes a forecast of our estimated ordinary income (loss), which is our annual income (loss) from continuing operations before tax, excluding unusual or infrequently occurring (or discrete) items. Significant management judgment is required in projecting our ordinary income (loss) and our current projection for 2007 is close to break-even. Our projected ordinary income tax expense for the full year 2007, which excludes the effect of unusual or infrequently occurring (or discrete) items, consists primarily of the deferred tax effect of the amortization of wireless licenses and goodwill for income tax purposes. Because our projected 2007 income tax expense is a relatively fixed amount, a small change in the ordinary income (loss) projection can produce a significant variance in the effective tax rate and, therefore, it is difficult to make a reliable estimate of the annual effective tax rate. As a result and in accordance with paragraph 82 of FASB Interpretation No. 18, Accounting for Income Taxes in Interim Periods an interpretation of APB Opinion No. 28 , we have computed our provision for income taxes for the three and six months ended June 30, 2007 by applying the actual effective tax rate to the year-to-date income.

During the three and six months ended June 30, 2007, we recorded income tax expense of $1.8 million and $4.2 million, respectively, compared to no income tax expense for the three and six months ended June 30, 2006.

We recorded a $2.5 million income tax benefit during the three months ended June 30, 2007 due to a Texas Margins Tax (TMT) credit which has been recorded as a deferred tax asset. We estimate that our future TMT liability will be based on our gross revenues in Texas, rather than our apportioned taxable income. Therefore, it is more likely than not that our TMT credit will be recovered and, accordingly, we have not established a valuation allowance against this asset.

We expect that we will recognize income tax expense for the full year 2007 despite the fact that we have recorded a full valuation allowance on our deferred tax assets, except with respect to the TMT credit discussed above. This is because of the deferred tax effect of the amortization of wireless licenses and tax basis goodwill for income tax purposes. We do not expect to release any fresh-start related valuation allowance from 2007 ordinary income.

We record deferred tax assets and liabilities arising from differing treatments of items for tax and accounting purposes. Deferred tax assets are also established for the expected future tax benefits to be derived from net operating loss carryforwards, capital loss carryforwards and income tax credits. We then periodically assess the likelihood that our deferred tax assets will be recovered from future taxable income. This assessment requires significant judgment. To the extent we believe it is more likely than not that our deferred tax assets will not be recovered, we must establish a valuation allowance. As part of this periodic assessment, we have weighed the positive and negative factors with respect to this determination and, at this time, except with respect to the realization of the TMT credit discussed above, do not believe there is sufficient positive evidence and sustained operating earnings to support a conclusion that it is more likely than not that all or a portion of our deferred tax assets will be realized. At June 30, 2007, we have cumulative pre-tax income since our emergence from bankruptcy in August 2004. Accordingly, we will continue to closely monitor the positive and negative factors to determine whether our valuation allowance should be released. At such time that we determine that it is more likely than not that the deferred tax assets are realizable, the release of up to $218.5 million of valuation allowance established in fresh-start reporting will be recorded as a reduction of goodwill rather than as a reduction of income tax expense.

We are currently evaluating a change in tax accounting method which would accelerate certain tax deductions related to the amortization of wireless licenses and increase our net operating loss carryforwards. The increase in net operating loss carryforwards resulting from this potential change could be used to reduce the amount of cash required to settle further tax liabilities. The accelerated tax deductions that would result from this potential tax accounting method change would also reduce the tax basis of assets that are treated as indefinite-lived for book purposes. This would result in an increase to deferred tax liabilities on such assets and therefore increase deferred tax expense. We estimate this potential tax accounting method change would result in an increase to our 2007 income tax expense of an estimated $28 million to $32 million, approximately $19 million to $21 million of which would be reported as a discrete item in the period the method change is finalized and the remainder of which may increase the income tax expense used in our effective tax rate. We expect to complete our analysis of this potential tax accounting method change during the third quarter.

Performance Measures

In managing our business and assessing our financial performance, management supplements the information provided by financial statement measures with several customer-focused performance metrics that are widely used in the telecommunications industry. These metrics include average revenue per user per month (ARPU), which measures service revenue per customer; cost per gross customer addition (CPGA), which measures the average cost of acquiring a new customer; cash costs per user per month (CCU), which measures the non-selling cash cost of operating our business on a per customer basis; and churn, which measures turnover in our customer base. CPGA and CCU are non-GAAP financial measures. A non-GAAP financial measure, within the meaning of Item 10 of Regulation S-K promulgated by the SEC, is a numerical measure of a company s financial performance or cash flows that (a) excludes amounts, or is subject to adjustments that have the effect of excluding amounts, that are included in the most directly comparable measure calculated and presented in accordance with generally accepted accounting principles in the condensed consolidated balance sheets, condensed consolidated statements of operations or condensed consolidated statements of cash flows; or (b) includes amounts, or is subject to adjustments that have the effect of including amounts, that are excluded from the most directly comparable measure so calculated and presented. See Reconciliation of Non-GAAP Financial Measures below for a reconciliation of CPGA and CCU to the most directly comparable GAAP financial measures.

ARPU is service revenue divided by the weighted-average number of customers, divided by the number of months during the period being measured. Management uses ARPU to identify average revenue per customer, to track changes in average customer revenues over time, to help evaluate how changes in our business, including changes in our service offerings and fees, affect average revenue per customer, and to forecast future service revenue. In addition, ARPU provides management with a useful measure to compare our subscriber revenue to that of other wireless communications providers. We do not recognize service revenue until payment has been received and services have been provided to the customer. In addition, customers are generally disconnected from service approximately 30 days after failing to pay a monthly bill. Therefore, because our calculation of weighted-average number of customers includes customers who have not paid their last bill and have yet to disconnect service, ARPU may appear lower during periods in which we have significant disconnect activity. We believe investors use ARPU primarily as a tool to track changes in our average revenue per customer and to compare our per customer service revenues to those of other wireless communications providers. Other companies may calculate this measure differently.

CPGA is selling and marketing costs (excluding applicable share-based compensation expense included in selling and marketing expense), and equipment subsidy (generally defined as cost of equipment less equipment revenue), less the net loss on equipment transactions unrelated to initial customer acquisition, divided by the total number of gross new customer additions during the period being measured. The net loss on equipment transactions unrelated to initial customer acquisition includes the revenues and costs associated with the sale of handsets to existing customers as well as costs associated with handset replacements and repairs (other than warranty costs which are the responsibility of the handset manufacturers). We deduct customers who do not pay their first monthly bill from our gross customer additions, which tends to increase CPGA because we incur the costs associated with this customer without receiving the benefit of a gross customer addition. Management uses CPGA to measure the efficiency of our customer acquisition efforts, to track changes in our average cost of acquiring new subscribers over time, and to help evaluate how changes in our sales and distribution strategies affect the cost-efficiency of our customer acquisition efforts. In addition, CPGA provides management with a useful measure to compare our per customer acquisition costs with those of other wireless communications providers. We believe investors use CPGA primarily as a tool to track changes in our average cost of acquiring new customers and to compare our per customer acquisition costs to those of other wireless communications providers. Other companies may calculate this measure differently.

CCU is cost of service and general and administrative costs (excluding applicable share-based compensation expense included in cost of service and general and administrative expense) plus net loss on equipment transactions unrelated to initial customer acquisition (which includes the gain or loss on sale of handsets to existing customers and costs associated with handset replacements and repairs (other than warranty costs which are the responsibility of the handset manufacturers)), divided by the weighted-average number of customers, divided by the number of months during the period being measured. CCU does not include any depreciation and amortization expense. Management uses CCU as a tool to evaluate the non-selling cash expenses associated with ongoing business operations on a per customer basis, to track changes in these non-selling cash costs over time, and to help evaluate how changes in our business operations affect non-selling cash costs per customer. In addition, CCU provides management with a useful measure to compare our non-selling cash costs per customer with those of other wireless communications providers. We believe investors use CCU primarily as a tool to track changes in our non-selling cash costs over time and to compare our non-selling cash costs to those of other wireless communications providers. Other companies may calculate this measure differently.

Churn, which measures customer turnover, is calculated as the net number of customers who disconnect from our service divided by the weighted-average number of customers divided by the number of months during the period being measured. Customers who do not pay their first monthly bill are deducted from our gross customer additions in the month that they are disconnected; as a result, these customers are not included in churn. In addition, customers are generally disconnected from service approximately 30 days after failing to pay a monthly bill. Beginning during the quarter ended June 30, 2007, pay-in-advance customers who ask to terminate their service are disconnected when their paid service period ends, whereas previously these customers were generally disconnected on the date of their request. Management uses churn to measure our retention of customers, to measure changes in customer retention over time, and to help evaluate how changes in our business affect customer retention. In addition, churn provides management with a useful measure to compare our customer turnover activity to that of other wireless communications providers. We believe investors use churn primarily as a tool to track changes in our customer retention over time and to compare our customer retention to that of other wireless communications providers. Other companies may calculate this measure differently.

The following table shows metric information for the three months ended June 30, 2007 and 2006:

	Three Months Ended June 30,

	2007 (As Restated)	2006 (As Restated)
ARPU	$ 44.75	$ 42.30
CPGA	$ 182	$ 195
CCU	$ 19.87	$ 19.50
Churn	4.3%	3.6%

44

Table of Contents

Reconciliation of Non-GAAP Financial Measures

We utilize certain financial measures, as described above, that are widely used in the industry but that are not calculated based on GAAP. Certain of these financial measures are considered non-GAAP financial measures within the meaning of Item 10 of Regulation S-K promulgated by the SEC.

CPGA The following table reconciles total costs used in the calculation of CPGA to selling and marketing expense, which we consider to be the most directly comparable GAAP financial measure to CPGA (in thousands, except gross customer additions and CPGA):

	Three Months Ended June 30, 2007 (As Restated)	2006 (As Restated)
Selling and marketing expense	$ 47,011	$ 35,942
Less share-based compensation expense included in selling and marketing expense	(560)	(473)
Plus cost of equipment	90,818	65,396
Less equipment revenue	(50,661)	(50,299)
Less net loss on equipment transactions unrelated to initial customer acquisition	(2,591)	(1,139)
Total costs used in the calculation of CPGA	$ 84,017	$ 49,427
Gross customer additions	462,434	253,033
CPGA	$ 182	$ 195

CCU The following table reconciles total costs used in the calculation of CCU to cost of service, which we consider to be the most directly comparable GAAP financial measure to CCU (in thousands, except weighted-average number of customers and CCU):

	Three Months Ended June 30, 2007 (As Restated)	2006 (As Restated)
Cost of service	$ 90,559	$ 61,255
Plus general and administrative expense	66,407	46,576
Less share-based compensation expense included in cost of service and general and administrative expense	(5,335)	(4,215)
Plus net loss on equipment transactions unrelated to initial customer acquisition	2,591	1,139
Total costs used in the calculation of CCU	$ 154,222	$ 104,755
Weighted-average number of customers	2,586,900	1,790,232
CCU	$ 19.87	$ 19.50

Liquidity and Capital Resources

Overview

Our principal sources of liquidity are our existing unrestricted cash, cash equivalents and short-term investments, cash generated from operations and cash available under our $200 million revolving credit facility, which was undrawn at June 30, 2007. We had a total of $683.8 million in unrestricted cash, cash equivalents and short-term investments at June 30, 2007. We generated $108.8 million of net cash from operating activities during the six months ended June 30, 2007, and we expect that cash from operations will continue to be a significant and increasing source of liquidity as our markets mature and our business continues to grow. We may also generate liquidity through capital markets transactions, or by selling assets that are not material to or are not required for our ongoing operations. For example, during the quarter ended June 30, 2007, we issued $350 million of unsecured senior notes due 2014 in a private placement to qualified institutional buyers. We believe that these sources of liquidity are sufficient to meet the operating and capital requirements for our current business operations and for the expansion of our business through the build-out of new markets and other activities described below.

Looking forward, we may raise significant additional capital over time, as market conditions permit, to enable us to take advantage of further business expansion opportunities. If we required additional financing in the capital markets to take advantage of business expansion opportunities or to accelerate our pace of new market build-outs and could not obtain such financing on terms we found acceptable, we would likely reduce our investment in expansion opportunities or slow the pace of expansion activities to match our capital requirements to our available liquidity.

Our total outstanding indebtedness under our senior secured credit agreement was $891.0 million as of June 30, 2007. In addition, we had $200 million available for borrowing under our undrawn revolving credit facility. Outstanding term loan borrowings under the senior secured credit agreement must be repaid in 22 quarterly payments of $2.25 million each (which commenced on March 31, 2007) followed by four quarterly payments of $211.5 million (which commence on September 30, 2012). In addition to our senior secured credit agreement, we also had $1,100 million in unsecured senior notes due 2014 outstanding as of June 30, 2007. Our $1,100 million in