LEAP WIRELESS INTERNATIONAL INC
Form 10-Q
May 11, 2009

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2009

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

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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer þ Accelerated filer o Non-accelerated filer o (Do not check if a smaller reporting company) Smaller reporting company 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 outstanding of the registrant s common stock on May 1, 2009 was 70,305,601.

LEAP WIRELESS INTERNATIONAL, INC.

QUARTERLY REPORT ON FORM 10-Q
For the Quarter Ended March 31, 2009

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PART I

FINANCIAL INFORMATION

Item 1. Financial Statements.

LEAP WIRELESS INTERNATIONAL, INC.

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

	March 31, 2009 (Unaudited)	December 31, 2008
Assets		
Cash and cash equivalents	$ 181,883	$ 357,708
Short-term investments	306,229	238,143
Restricted cash, cash equivalents and short-term investments	4,559	4,780
Inventories	103,917	126,293
Other current assets	59,185	51,948
Total current assets	655,773	778,872
Property and equipment, net	1,956,566	1,842,718
Wireless licenses	1,892,182	1,841,798
Assets held for sale		45,569
Goodwill	430,101	430,101
Intangible assets, net	28,409	29,854
Other assets	87,759	83,945
Total assets	$ 5,050,790	$ 5,052,857
Liabilities and Stockholders Equity		
Accounts payable and accrued liabilities	$ 328,591	$ 325,294
Current maturities of long-term debt	14,000	13,000
Other current liabilities	185,499	162,002
Total current liabilities	528,090	500,296
Long-term debt	2,561,046	2,566,025
Deferred tax liabilities	224,060	217,631
Other long-term liabilities	87,182	84,350
Total liabilities	3,400,378	3,368,302
Redeemable noncontrolling interests	74,815	71,879

Commitments and contingencies (Note 9)		
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, 70,161,914 and 69,515,526 shares issued and outstanding at March 31, 2009 and December 31, 2008, respectively	7	7
Additional paid-in capital	1,844,950	1,835,468
Accumulated deficit	(264,237)	(216,877)
Accumulated other comprehensive loss	(5,123)	(5,922)
Total stockholders equity	1,575,597	1,612,676
Total liabilities and stockholders equity	$ 5,050,790	$ 5,052,857

See accompanying notes to condensed consolidated financial statements.

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LEAP WIRELESS INTERNATIONAL, INC.

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

	Three Months Ended March 31, 2009	Three Months Ended March 31, 2008
Revenues:		
Service revenues	$ 514,005	$ 398,929
Equipment revenues	72,982	69,455
Total revenues	586,987	468,384
Operating expenses:		
Cost of service (exclusive of items shown separately below)	144,344	111,170
Cost of equipment	157,796	114,221
Selling and marketing	103,523	58,100
General and administrative	96,177	75,907
Depreciation and amortization	89,733	82,639
Total operating expenses	591,573	442,037
Gain (loss) on sale or disposal of assets	3,581	(291)
Operating income (loss)	(1,005)	26,056
Equity in net income (loss) of investee	1,479	(1,062)
Interest income	945	4,781
Interest expense	(41,851)	(33,357)
Other expense, net	(63)	(4,036)
Loss before income taxes	(40,495)	(7,618)
Income tax expense	(6,865)	(9,278)
Net loss	(47,360)	(16,896)
Accretion of redeemable noncontrolling interests	(2,936)	(1,923)
Net loss attributable to common stockholders	$ (50,296)	$ (18,819)
Loss per share attributable to common stockholders:		
Basic	$ (0.74)	$ (0.28)
Diluted	$ (0.74)	$ (0.28)
Shares used in per share calculations:		
Basic	68,189	67,529
Diluted	68,189	67,529

See accompanying notes to condensed consolidated financial statements.

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LEAP WIRELESS INTERNATIONAL, INC.

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

	Three Months Ended March 31, 2009	Three Months Ended March 31, 2008
Operating activities:		
Net cash provided by operating activities	$ 99,952	$ 135,680
Investing activities:		
Purchases of property and equipment	(201,785)	(157,237)
Change in prepayments for purchases of property and equipment	(1,494)	(2,601)
Purchases of and deposits for wireless licenses and spectrum clearing costs	(2,545)	(70,877)
Proceeds from sale of wireless licenses and operating assets	2,965	
Purchases of investments	(234,563)	(19,744)
Sales and maturities of investments	165,914	124,341
Purchase of membership units of equity method investment		(1,033)
Change in restricted cash	(1,134)	(251)
Net cash used in investing activities	(272,642)	(127,402)
Financing activities:		
Repayment of long-term debt	(3,654)	(2,250)
Proceeds from issuance of common stock, net	853	2,977
Other	(334)	(5,158)
Net cash used in financing activities	(3,135)	(4,431)
Net increase (decrease) in cash and cash equivalents	(175,825)	3,847
Cash and cash equivalents at beginning of period	357,708	433,337
Cash and cash equivalents at end of period	$ 181,883	$ 437,184
Supplementary disclosure of cash flow information:		
Cash paid for interest	$ 41,187	$ 19,767
Cash paid for income taxes	$ 3	$ 52

See accompanying notes to condensed consolidated financial statements.

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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 services in the United States under the Cricket® brand. Cricket service offerings provide customers with unlimited wireless services for a flat rate without requiring a fixed-term contract or a credit check. The Company s primary service is Cricket Wireless, which offers customers unlimited wireless voice and data services for a flat monthly rate. Leap conducts operations through its subsidiaries and has no independent operations or sources of income other than through dividends, if any, from its subsidiaries. Cricket service is offered by Cricket Communications, Inc. (Cricket), a wholly owned subsidiary of Leap, and is also offered in Oregon by LCW Wireless Operations, LLC (LCW Operations), a wholly owned subsidiary of LCW Wireless, LLC (LCW Wireless), and in the upper Midwest by Denali Spectrum Operations, LLC (Denali Operations), an indirect wholly owned subsidiary of Denali Spectrum, LLC (Denali). LCW Wireless and Denali are designated entities 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, and owns an indirect 82.5% non-controlling interest in Denali Operations through an 82.5% non-controlling interest in Denali. Leap, Cricket and their subsidiaries, including LCW Wireless and Denali, are collectively referred to herein as the Company.

Note 2. Basis of Presentation and Significant Accounting Policies

Basis of Presentation

The accompanying interim condensed consolidated financial statements have been prepared 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 (GAAP) for a complete set of financial statements. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company s Annual Report on Form 10-K for the year ended December 31, 2008. In the opinion of management, the unaudited financial information for the interim periods presented reflects all adjustments necessary for a fair presentation of the Company s results for the periods presented, with such adjustments consisting only of normal recurring adjustments. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the reported amounts of revenues and expenses. By their nature, estimates are subject to an inherent degree of uncertainty. Actual results could differ from management s estimates and operating results for interim periods are not necessarily indicative of operating results for an entire fiscal year.

The condensed consolidated financial statements include the operating results and financial position of Leap and its wholly owned subsidiaries as well as the operating results and financial position of LCW Wireless and Denali and their wholly owned subsidiaries. The Company consolidates its interests in LCW Wireless and Denali in accordance with Financial Accounting Standards Board (FASB) Interpretation No. (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 intercompany accounts and transactions have been eliminated in the condensed consolidated financial statements.

On January 1, 2009, the Company adopted the provisions of Statement of Financial Accounting Standards (SFAS) No. 160, Noncontrolling Interests in Consolidated Financial Statements, an Amendment of ARB No. 51 (SFAS 160), which defines a noncontrolling interest in a consolidated subsidiary as the portion of the equity (net assets) in a subsidiary not attributable, directly or indirectly, to a parent and requires noncontrolling interests to be presented as a separate component of equity in the consolidated balance sheet subject to the provisions of EITF Topic No. D-98, Classification and Measurement of Redeemable Securities (EITF Topic D-98). SFAS 160 also modifies the presentation of net income by requiring earnings and other comprehensive income to be attributed to controlling and noncontrolling interests. The cumulative impact to the Company s financial statements as a result of the adoption of SFAS 160 resulted in a $9.2 million reduction to stockholders equity, a $5.8 million reduction to deferred tax liabilities and a $15.0 million increase to redeemable noncontrolling interests (formerly referred to as minority interests) as of December 31, 2008. The Company has retrospectively applied SFAS 160 to all prior periods. See Note 8 for a further discussion regarding the Company s adoption of SFAS 160.

Segment and Geographic Data

The Company operates in a single operating segment as a wireless communications carrier that offers digital wireless services in the United States. During 2008, the Company introduced two new product offerings to complement its Cricket Wireless service. Cricket Broadband, the Company s unlimited mobile broadband service, allows customers to access the internet through their computers for a flat monthly rate with no long-term commitment or credit check. Cricket PAYGo^{tm} is a daily pay-as-you-go unlimited prepaid wireless service. For the three months ended March 31, 2009, revenue for the Cricket Broadband and Cricket PAYGo services approximated 6% of consolidated revenues. As of and for the three months ended March 31, 2009, all of the Company s revenues and long-lived assets related to operations in the United States.

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. In general, new and reactivating customers are required to pay for their service in advance, while customers who first activated their service prior to May 2006 pay in arrears. Because the Company does not require customers to sign fixed-term contracts or pass a credit check, its services are available to a broader customer base than many other wireless providers and, as a result, some of its customers may be more likely to have service terminated due to an inability to pay. 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 (EITF 00-21), the sale of a handset along with a month of wireless service constitutes a multiple element arrangement. Under EITF 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 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. The costs of handsets and accessories sold are recorded in cost of equipment. 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). 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 and deferred equipment revenue until they are sold to, and service is activated by, customers.

Through a third-party provider, the Company s customers may elect to participate in an extended handset warranty/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, and customer returns of handsets and accessories have historically been negligible.

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Amounts billed by the Company in advance of customers wireless service periods are not reflected in accounts receivable or deferred revenue since 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 sold to third-party dealers.

Federal Universal Service Fund and E-911 fees are assessed by various governmental authorities in connection with the services that the Company provides to its customers. The Company reports these fees as well as sales, use and excise taxes that are assessed and collected, net of amounts remitted, in the condensed consolidated statements of operations.

Fair Value of Financial Instruments

The Company adopted the provisions of SFAS No. 157, Fair Value Measurements (SFAS 157), which defines fair value for accounting purposes, establishes a framework for measuring fair value and expands disclosure requirements regarding fair value measurements. The Company s adoption of SFAS 157 for its financial assets and liabilities did not have a material impact on its consolidated financial statements. SFAS 157 defines fair value as an exit price, which is the price that would be received upon sale of an asset or paid upon transfer of a liability in an orderly transaction between market participants at the measurement date. The degree of judgment utilized in measuring the fair value of assets and liabilities generally correlates to the level of pricing observability. Assets and liabilities with readily available, actively quoted prices or for which fair value can be measured from actively quoted prices in active markets generally have more pricing observability and require less judgment in measuring fair value. Conversely, assets and liabilities that are rarely traded or not quoted have less pricing observability and are generally measured at fair value using valuation models that require more judgment. These valuation techniques involve some level of management estimation and judgment, the degree of which is dependent on the price transparency of the asset, liability or market and the nature of the asset or liability. The Company has categorized its assets and liabilities measured at fair value into a three-level hierarchy in accordance with SFAS 157. See Note 5 for a further discussion regarding the Company s measurement of assets and liabilities at fair value.

Effective January 1, 2009, the Company adopted SFAS 157 for its non-financial assets and liabilities that are remeasured at fair value on a non-recurring basis. The adoption of SFAS 157 for the Company s non-financial assets and liabilities that are remeasured at fair value on a non-recurring basis did not have a material impact on its financial condition and results of operations; however, this standard could have a material impact in future periods.

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 improvements	7
Towers	15
Antennae	5
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 other asset is placed in service, at which time the asset is transferred to the appropriate property or equipment category. The Company capitalizes salaries and related costs of engineering and technical operations employees as

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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 months ended March 31, 2009 and 2008, the Company capitalized interest of $12.2 million and $13.0 million, respectively, to property and equipment.

In accordance with American Institute of Certified Public Accountants Statement of Position (SOP) No. 98-1, Accounting for Costs of Computer Software Developed or Obtained for Internal Use (SOP 98-1), certain costs related to the development of internal use software are capitalized and amortized over the estimated useful life of the software. For the three months ended March 31, 2009 and 2008, the Company capitalized approximately $1.6 million and $4.1 million, respectively, of these costs. The Company amortized software costs of approximately $5.0 million and $4.1 million for the three months ended March 31, 2009 and 2008, respectively.

Wireless Licenses

The Company, LCW Wireless and Denali operate broadband Personal Communications Services (PCS) and Advanced Wireless Services (AWS) networks under PCS and AWS wireless licenses granted by the FCC that are specific to a particular geographic area on spectrum that has been allocated by the FCC for such services. Wireless licenses are initially recorded at cost and are not amortized. Although FCC licenses are issued with a stated term (ten years in the case of PCS licenses and fifteen years in the case of AWS licenses), wireless licenses are considered to be indefinite-lived intangible assets because the Company expects its subsidiaries and joint ventures to provide wireless service using the relevant licenses for the foreseeable future, PCS and AWS licenses are routinely renewed for either no or a nominal fee, and management has determined that no legal, regulatory, contractual, competitive, economic or other factors currently exist that limit the useful life of the Company s or its consolidated joint ventures PCS and AWS licenses. On a quarterly basis, the Company evaluates the remaining useful life of its indefinite-lived wireless licenses to determine whether events and circumstances, such as legal, regulatory, contractual, competitive, economic or other factors, continue to support an indefinite useful life. If a wireless license is subsequently determined to have a finite useful life, the Company tests the wireless license for impairment in accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets (SFAS 144), and the wireless license would then be amortized prospectively over its estimated remaining useful life. In addition to its quarterly evaluation of the indefinite useful lives of its wireless licenses, the Company also tests its wireless licenses for impairment in accordance with SFAS No. 142, Goodwill and Other Intangible Assets (SFAS 142), on an annual basis. As of March 31, 2009 and December 31, 2008, the carrying value of the Company s and its consolidated joint ventures wireless licenses was $1.9 billion and $1.8 billion, respectively. Wireless licenses to be disposed of by sale are carried at the lower of their carrying value or fair value less costs to sell. As of March 31, 2009, no wireless licenses were classified as assets held for sale. As of December 31, 2008, wireless licenses with a carrying value of $45.6 million were classified as assets held for sale, as more fully described in Note 7.

Portions of the AWS spectrum that the Company and Denali Spectrum License Sub, LLC (Denali License Sub) (an indirect wholly owned subsidiary of Denali) hold are currently used by U.S. federal government and/or incumbent commercial licensees. FCC rules require winning bidders to avoid interfering with these existing users or to clear the incumbent users from the spectrum through specified relocation procedures. The Company s and Denali s spectrum clearing costs are capitalized to wireless licenses as incurred. During the three months ended March 31, 2009 and 2008, the Company and Denali incurred approximately $2.5 million and $0.9 million, respectively, in spectrum clearing costs.

Derivative Instruments and Hedging Activities

The Company has entered into interest rate swap agreements with respect to $355 million of its indebtedness. These interest rate swap agreements effectively fix the London Interbank Offered Rate (LIBOR) interest rate on $150 million of indebtedness at 8.3% and $105 million of indebtedness at 7.3% through June 2009 and $100 million of indebtedness at 8.0% through September 2010. The swap agreements were in a liability position as of March 31, 2009 and December 31, 2008 and had a fair value of $8.1 million and $11.0 million, respectively, on such dates. The Company enters into these derivative contracts to manage its exposure to interest rate changes by achieving a desired proportion of fixed rate versus variable rate debt. The Company does not use derivative instruments for trading or other speculative purposes.

The Company records all derivatives in other assets or other liabilities on its condensed consolidated balance sheets at fair value. If the derivative is designated as a cash flow hedge and the hedging relationship qualifies for hedge accounting, the effective portion of the change in fair value of the derivative is recorded in other comprehensive income (loss) and is recorded as interest expense when the hedged debt affects interest expense. The ineffective portion of the change in fair value of the derivative qualifying for hedge accounting and changes in the fair values of derivative instruments not qualifying for hedge accounting are recognized in interest expense in the period of the change.

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

As a result of the amendment to the Company s senior secured credit agreement (the Credit Agreement) in June 2008, which among other things introduced a LIBOR floor of 3.0% per annum, the Company de-designated its existing interest rate swap agreements as cash flow hedges and discontinued its hedge accounting for these interest rate swaps during the second quarter of 2008. The loss accumulated in other comprehensive income (loss) on the date the Company discontinued its hedge accounting is amortized to interest expense, using the swaplet method, over the remaining term of the respective interest rate swap agreements. In addition, changes in the fair value of these interest rate swaps are recorded as a component of interest expense. During the three months ended March 31, 2009, the Company recognized a net decrease to interest expense of $1.7 million related to these items.

Investments in Other Entities

The Company uses the equity method to account for investments in common stock of corporations in which it has a voting interest of between 20% and 50% or in which the Company 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 is adjusted to recognize the Company s share of net earnings or losses of the investee. The carrying value of the Company s equity method investee, in which it owned approximately 20% of the outstanding membership units, was $18.9 million and $17.4 million as of March 31, 2009 and December 31, 2008, respectively. During the three months ended March 31, 2009, the Company s share of its equity method investee income was $1.5 million. During the three months ended March 31, 2008, the Company s share of its equity method investee losses was $1.1 million.

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 or services, any significant news that has been released regarding 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 to the carrying value of its investment and a corresponding charge to the consolidated statements of operations.

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Concentrations

The Company generally relies on one key vendor for billing services, one key vendor for handset logistics, one key vendor for a majority of its voice and data communications transport services and a limited number of vendors for payment processing services. Loss or disruption of these services could materially adversely affect the Company s business.

The Company does not have a national network, and it must pay fees to other carriers who provide it with roaming services which allow the Company s customers to roam on such carriers networks. Currently, the Company relies on roaming agreements with several other carriers for a majority of its roaming needs. If it were unable to cost-effectively provide roaming services to customers in geographically desirable service areas, the Company s competitive position, business, financial condition and results of operations could be materially adversely affected.

Share-Based Compensation

The Company accounts for share-based awards exchanged for employee services in accordance with SFAS No. 123(R), Share-Based Payment (SFAS 123(R)). Under SFAS 123(R), share-based compensation expense 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 months ended March 31, 2009 and 2008 was allocated to the condensed consolidated statements of operations as follows (in thousands, except per share data):

	Three Months Ended March 31,	
	2009	**2008**
Cost of service	$ 844	$ 903
Selling and marketing expenses	1,583	1,356
General and administrative expenses	9,228	7,443
Share-based compensation expense	$ 11,655	$ 9,702
Share-based compensation expense per share:		
Basic	$ 0.17	$ 0.14
Diluted	$ 0.17	$ 0.14

Income Taxes

The computation of the Company s 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 (discrete) items. Significant management judgment is required in projecting the Company s ordinary income (loss). The Company s projected ordinary income tax expense for the full year 2009, which excludes the effect of 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 2009 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, Accounting for Income Taxes in Interim Periods an interpretation of APB Opinion No. 28 (FIN 18), the Company has computed its provision for income taxes for the three months ended March 31, 2009 and 2008 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 (NOL) 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. Included in the Company s deferred tax assets at March 31, 2009 were federal NOL carryforwards of approximately $1,065.2 million (which will begin to expire in 2022) and state NOL carryforwards of approximately $1,103.2 million ($32.2 million of which will expire at the end of 2009), which could be used to offset future ordinary taxable income and reduce the amount of cash required to settle future tax liabilities. 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 three months ended March 31, 2009, the Company weighed the positive and negative factors with respect to this determination and, at this time, 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 portion of its deferred tax assets will be realized, except with respect to the realization of a $2.4 million Texas Margins Tax credit. The Company will continue to closely monitor the positive and negative factors to assess whether the Company is required to continue to maintain a valuation allowance. At such time as the Company determines that it is more likely than not that all or a portion of the deferred tax assets are realizable, the valuation allowance will be reduced or released in its entirety, with the corresponding benefit reflected in the Company s tax provision. 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.

In accordance with SFAS No. 141 (revised 2007), Business Combinations (SFAS 141(R)), which became effective for the Company on January 1, 2009, any reduction in the valuation allowance, including the valuation allowance established in fresh-start reporting, will be accounted for as a reduction of income tax expense.

The Company s unrecognized income tax benefits and uncertain tax positions have not been material in any period. Interest and penalties related to uncertain tax positions are recognized by the Company as a component of income tax expense; however, such amounts have not been material in any period. All of the Company s tax years from 1998 to 2008 remain open to examination by federal and state taxing authorities. The Company s 2005 tax year is currently under federal examination, the results of which are not expected to have a material impact on the consolidated financial statements.

Comprehensive Loss

Comprehensive loss consisted of the following (in thousands):

	Three Months Ended March 31,	
	2009	**2008**
Net loss	$ (47,360)	$ (16,896)
Other comprehensive loss:		
Net unrealized holding gains on investments, net of tax	4	91
Unrealized losses on interest rate swaps		(6,892)
Comprehensive loss	$ (47,356)	$ (23,697)

Components of accumulated other comprehensive loss consisted of the following (in thousands):

	March 31, 2009	December 31, 2008
Net unrealized holding gains on investments, net of tax	$ 201	$ 197
Unrealized losses on interest rate swaps, net of tax and swaplet amortization	(5,324)	(6,119)
Accumulated other comprehensive loss	$ (5,123)	$ (5,922)

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Recent Accounting Pronouncements

In April 2009, the FASB issued three related Staff Positions (FSP), which will be effective for interim and annual periods ending after June 15, 2009: (i) FSP No. SFAS 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability have Significantly Decreased and Identifying Transactions That Are Not Orderly (FSP SFAS 157-4), (ii) FSP No. SFAS 115-2 and SFAS 124-2, Recognition and Presentation of Other-Than-Temporary Impairments (FSP SFAS 115-2 and SFAS 124-2) and (iii) FSP No. SFAS 107-1 and APB 28-1, Interim Disclosures about Fair Value of Financial Instruments (FSP SFAS 107-1 and APB 28-1). FSP SFAS 157-4 provides guidance on how to determine the fair value of assets and liabilities under SFAS 157 in the current economic environment and reemphasizes that an exit price is the appropriate basis for fair value measurements; however, if the Company were to conclude that there had been a significant decrease in the volume and level of activity of the asset or liability in relation to normal market activities, FSP SFAS 157-4 indicates that quoted market values may not be representative of fair value and the Company may conclude that a change in valuation technique or the use of multiple valuation techniques may be appropriate. FSP SFAS 115-2 and SFAS 124-2 modifies the requirements for recognizing other-than-temporarily impaired debt securities and revises the existing impairment model for such securities by modifying the current intent and ability indicator in determining whether a debt security is other-than-temporarily impaired. FSP SFAS 107-1 and APB 28-1 enhances disclosure requirements for instruments under the scope of SFAS 157 for both interim and annual periods. The Company is currently evaluating what impact, if any, these FSPs will have on its consolidated financial statements.

Note 3. Supplementary Balance Sheet Information (in thousands):

	March 31, 2009	December 31, 2008
Other current assets:		
Accounts receivable, net(1)	$ 27,372	$ 31,177
Prepaid expenses	30,206	19,367
Other	1,607	1,404
	$ 59,185	$ 51,948
Property and equipment, net(2):		
Network equipment	$ 2,272,074	$ 1,911,173
Computer hardware and software	213,555	203,720
Construction-in-progress	366,803	574,773
Other	76,761	60,972
	2,929,193	2,750,638
Accumulated depreciation	(972,627)	(907,920)
	$ 1,956,566	$ 1,842,718
Intangible assets, net:		
Customer relationships	$ 7,347	$ 7,347
Trademarks	37,000	37,000
	44,347	44,347

Accumulated amortization customer relationships	(3,604)	(2,820)
Accumulated amortization trademarks	(12,334)	(11,673)
	$ 28,409	$ 29,854

	March 31, 2009		December 31, 2008	
Accounts payable and accrued liabilities:				
Trade accounts payable	$	183,510	$	201,843
Accrued payroll and related benefits		63,029		50,462
Other accrued liabilities		82,052		72,989
	$	328,591	$	325,294
Other current liabilities:				
Deferred service revenue(3)	$	73,847	$	62,998
Deferred equipment revenue(4)		24,531		20,614
Accrued sales, telecommunications, property and other taxes payable		28,337		32,799
Accrued interest		51,677		38,500
Other		7,107		7,091
	$	185,499	$	162,002

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

(2) As of March 31, 2009 and December 31, 2008, approximately $8.7 million of assets were held by the Company under capital lease arrangements. Accumulated amortization relating to these assets totaled $3.4 million and $3.2 million as of March 31, 2009 and December 31, 2008, respectively.

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

(4) Deferred equipment revenue relates to handsets sold to third-party dealers.

Note 4. 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 and the if-converted method, where applicable. Dilutive common share equivalents are comprised of stock options, restricted stock awards, employee stock purchase rights and convertible senior notes.

Since the Company incurred losses for the three months ended March 31, 2009 and 2008, 9.0 million and 5.2 million common share equivalents were excluded in the computation of diluted earnings (loss) per share for those periods, respectively, as their effect would be antidilutive.

Note 5. Fair Value of Financial Instruments

The Company has categorized its assets and liabilities measured at fair value into a three-level hierarchy in accordance with SFAS 157. Assets and liabilities measured at fair value using quoted prices in active markets for identical assets or liabilities are generally categorized as Level 1; assets and liabilities measured at fair value using observable market-based inputs or unobservable inputs that are corroborated by market data for similar assets or liabilities are generally categorized as Level 2; and assets and liabilities measured at fair value using unobservable inputs that cannot be corroborated by market data are generally categorized as Level 3. The lowest level input that is significant to the fair value measurement of an asset or liability is used to categorize that asset or liability, as determined in the judgment of management. Assets and liabilities presented at fair value in the Company s condensed consolidated balance sheets are generally categorized as follows:

Level 1 Quoted prices in active markets for identical assets or liabilities. The Company did not have any Level 1 assets or liabilities as of March 31, 2009 or December 31, 2008.

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Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. The Company s Level 2 assets and liabilities as of March 31, 2009 and December 31, 2008 included its cash equivalents, its short-term investments in obligations of the U.S. government, a majority of its short-term investments in commercial paper and its interest rate swaps.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Such assets and liabilities may have values determined using pricing models, discounted cash flow methodologies, or similar techniques, and include instruments for which the determination of fair value requires significant management judgment or estimation. The Company s Level 3 asset as of March 31, 2009 and December 31, 2008 comprised its short-term investment in asset-backed commercial paper.

The following table sets forth by level within the fair value hierarchy the Company s assets and liabilities that were recorded at fair value as of March 31, 2009 and December 31, 2008. As required by SFAS 157, financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. Thus, assets and liabilities categorized as Level 3 may be measured at fair value using inputs that are observable (Levels 1 and 2) and unobservable (Level 3). Management s assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the valuation of assets and liabilities and their placement within the fair value hierarchy levels (in thousands):

	At Fair Value as of March 31, 2009			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets:				
Cash equivalents	$	$ 49,931	$	$ 49,931
Short-term investments		304,729	1,500	306,229
Total	$	$ 354,660	$ 1,500	$ 356,160
Liabilities:				
Interest rate swaps	$	$ (8,077)	$	$ (8,077)
Total	$	$ (8,077)	$	$ (8,077)

	At Fair Value as of December 31, 2008			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets:				
Cash equivalents	$	$ 175,280	$	$ 175,280
Short-term investments		236,893	1,250	238,143
Total	$	$ 412,173	$ 1,250	$ 413,423

Liabilities:								
Interest rate swaps	$		$	(11,045)	$		$	(11,045)
Total	$		$	(11,045)	$		$	(11,045)

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The following table provides a summary of the changes in the fair value of the Company s Level 3 assets (in thousands):

	Three Months Ended March 31, 2009	2008
Beginning balance, January 1	$ 1,250	$ 16,200
Total losses (realized/unrealized):		
Included in net loss	$	$ (4,325)
Included in comprehensive income	250	
Settlements		
Transfers in (out) of Level 3		
Ending balance, March 31	$ 1,500	$ 11,875

The unrealized gains included in comprehensive income in the table above are presented in accumulated other comprehensive loss in the condensed consolidated balance sheets. The realized losses included in net loss in the table above are presented in other expense, net in the condensed consolidated statements of operations.

Cash Equivalents and Short-Term Investments

As of March 31, 2009 and December 31, 2008, all of the Company s short-term investments were debt securities with contractual maturities of less than one year and were classified as available-for-sale. The fair value of the Company s cash equivalents, short-term investments in obligations of the U.S. government and a majority of its short-term investments in commercial paper is determined using observable market-based inputs for similar assets, which primarily include yield curves and time to maturity factors. Such investments are therefore considered to be Level 2 items. The fair value of the Company s investment in asset-backed commercial paper is determined using primarily unobservable inputs that cannot be corroborated by market data, which primarily include ABX and monoline indices and a valuation model that considers a liquidity factor that is subjective in nature, and is therefore considered to be a Level 3 item.

Interest Rate Swaps

As more fully described in Note 2, the Company s interest rate swaps effectively fix the LIBOR interest rate (subject to the LIBOR floor of 3.0% per annum, as more fully described in Note 6) on a portion of its floating rate debt. The fair value of the Company s interest rate swaps is primarily determined using LIBOR spreads, which are significant observable inputs that can be corroborated, and therefore such swaps are considered to be Level 2 items.
SFAS 157 states that the fair value measurement of a liability must reflect the nonperformance risk of the entity. Therefore, the impact of the Company s creditworthiness has been considered in the fair value measurement of the interest rate swaps.

Long-Term Debt

The Company continues to report its long-term debt obligations at amortized cost; however, for disclosure purposes, the Company is required to measure the fair value of outstanding debt on a recurring basis. The fair value of the Company s outstanding long-term debt is determined using quoted prices in active markets and was $2,392.1 million and $2,201.2 million as of March 31, 2009 and December 31, 2008, respectively.

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Note 6. Long-Term Debt

Long-term debt as of March 31, 2009 and December 31, 2008 was comprised of the following (in thousands):

	March 31, 2009	December 31, 2008
Term loans under senior secured credit facilities	$ 912,346	$ 916,000
Unamortized deferred lender fees	(4,260)	(4,527)
Senior notes	1,400,000	1,400,000
Unamortized premium on $350 million senior notes due 2014	16,960	17,552
Convertible senior notes	250,000	250,000
	2,575,046	2,579,025
Current maturities of long-term debt	(14,000)	(13,000)
	$ 2,561,046	$ 2,566,025

Senior Secured Credit Facilities

Cricket Communications

The senior secured credit facility under the Company s Credit Agreement consists of a six-year $895.5 million term loan and a $200 million revolving credit facility. As of March 31, 2009, the outstanding indebtedness under the term loan was $875.3 million. Outstanding borrowings under the 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).

As of March 31, 2009, the interest rate on the term loan was LIBOR plus 3.50% (subject to a LIBOR floor of 3.0% per annum) or the bank base rate plus 2.50%, as selected by Cricket. At March 31, 2009, the effective interest rate on the term loan was 6.4%, including the effect of interest rate swaps, as more fully described in Note 2. 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 outstanding indebtedness for borrowed money bears interest at a fixed rate. The Company was in compliance with this requirement as of March 31, 2009.

Outstanding borrowings under the revolving credit facility, to the extent that there are any borrowings, are due in June 2011. As of March 31, 2009, the revolving credit facility was undrawn; however, approximately $0.5 million of letters of credit were issued under the Credit Agreement and were considered as usage of the revolving credit facility, as more fully described in Note 9. 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, and the rate is currently 0.25%. As of March 31, 2009, borrowings under the revolving credit facility would have accrued interest at LIBOR plus 3.25% (subject to the LIBOR floor of 3.0% per annum), or the bank base rate plus 2.25%, as selected by Cricket.

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 or requested, with respect to a minimum consolidated interest coverage ratio, a maximum consolidated leverage ratio and a minimum consolidated fixed charge coverage ratio. In addition to investments in the Denali joint venture, 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 Denali, LCW Wireless and other joint ventures. The Company was in compliance with these covenants as of March 31, 2009.

The Credit Agreement also prohibits the occurrence of a change of control, which includes the acquisition of beneficial ownership of 35% or more of Leap s equity securities, a change in a majority of the members of Leap s board of directors that is not approved by the board and the occurrence of a change of control under any of the Company s other credit instruments.

LCW Operations

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 2.70% to 6.33%. At March 31, 2009, the effective interest rate on the term loans was 5.0%, and the outstanding indebtedness was $37.1 million. LCW Operations has 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 through October 2011. 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. The obligations under the loans are secured by substantially all of the present and future assets of LCW Wireless and its subsidiaries. Outstanding borrowings under the term loans must be repaid in varying quarterly installments, which commenced in June 2008, with an aggregate final payment of $24.1 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, with restrictions on the use of proceeds; make certain investments and acquisitions; 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 (EBITDA), gross additions of subscribers, minimum cash and cash equivalents and maximum capital expenditures, among other things. LCW Operations was in compliance with these covenants as of March 31, 2009.

Senior Notes

Senior Notes Due 2014

In 2006, Cricket issued $750 million of 9.375% unsecured senior notes due 2014 in a private placement to institutional buyers, which were exchanged in 2007 for identical notes that had been registered with the SEC. In June 2007, Cricket issued an additional $350 million of 9.375% unsecured senior notes due 2014 in a private placement to institutional buyers at an issue price of 106% of the principal amount, which were exchanged in June 2008 for identical notes that had been registered with the SEC. These notes are all treated as a single class and have identical terms. The $21 million premium the Company received in connection with the issuance of the second tranche of notes has been recorded in long-term debt in the condensed consolidated financial statements and is being amortized as a reduction to interest expense over the term of the notes. At March 31, 2009, the effective interest rate on the $350 million of senior notes was 8.7%, which includes the effect of the premium amortization.

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.

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, if any, thereon to the redemption date. 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 any, thereon to the redemption date.

If a change of control occurs (which includes the acquisition of beneficial ownership of 35% or more of Leap s equity securities, a sale of all or substantially all of the assets of Leap and its restricted subsidiaries and a change in a majority of the members of Leap s board of directors that is not approved by the board), 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, if any, thereon to the repurchase date.

Convertible Senior Notes Due 2014

In June 2008, Leap issued $250 million of unsecured convertible senior notes due 2014 in a private placement to institutional buyers. The notes bear interest at the rate of 4.50% per year, payable semi-annually in cash in arrears, which interest payments commenced in January 2009. The notes are Leap s general unsecured obligations and rank equally in right of payment with all of Leap s existing and future senior unsecured indebtedness and senior in right of payment to all indebtedness that is contractually subordinated to the notes. The notes are structurally subordinated to the existing and future claims of Leap s subsidiaries creditors, including under the Credit Agreement and the senior notes described above and below. The notes are effectively junior to all of Leap s existing and future secured obligations, including those under the Credit Agreement, to the extent of the value of the assets securing such obligations.

Holders may convert their notes into shares of Leap common stock at any time on or prior to the third scheduled trading day prior to the maturity date of the notes, July 15, 2014. If, at the time of conversion, the applicable stock price of Leap common stock is less than or equal to approximately $93.21 per share, the notes will be convertible into 10.7290 shares of Leap common stock per $1,000 principal amount of the notes (referred to as the base conversion rate), subject to adjustment upon the occurrence of certain events. If, at the time of conversion, the applicable stock price of Leap common stock exceeds approximately $93.21 per share, the conversion rate will be determined pursuant to a formula based on the base conversion rate and an incremental share factor of 8.3150 shares per $1,000 principal amount of the notes, subject to adjustment.

Leap may be required to repurchase all outstanding notes in cash at a repurchase price of 100% of the principal amount of the notes, plus accrued and unpaid interest, if any, thereon to the repurchase date if (1) any person acquires beneficial ownership, directly or indirectly, of shares of Leap s capital stock that would entitle the person to exercise 50% or more of the total voting power of all of Leap s capital stock entitled to vote in the election of directors,

(2) Leap (i) merges or consolidates with or into any other person, another person merges with or into Leap, or Leap conveys, sells, transfers or leases all or substantially all of its assets to another person or (ii) engages in any recapitalization, reclassification or other transaction in which all or substantially all of Leap s common stock is exchanged for or converted into cash, securities or other property, in each case subject to limitations and excluding in the case of (1) and (2) any merger or consolidation where at least 90% of the consideration consists of shares of common stock traded on NYSE, ASE or NASDAQ, (3) a majority of the members of Leap s board of directors

ceases to consist of individuals who were directors on the date of original issuance of the notes or whose election or nomination for election was previously approved by the board of directors, (4) Leap is liquidated or dissolved or holders of common stock approve any plan or proposal for its liquidation or dissolution or (5) shares of Leap common stock are not listed for trading on any of the New York Stock Exchange, the NASDAQ Global Market or the NASDAQ Global Select Market (or any of their respective successors). Leap may not redeem the notes at its option.

In connection with the private placement of the convertible senior notes, the Company entered into a registration rights agreement with the initial purchasers of the notes in which the Company agreed, under certain circumstances, to use commercially reasonable efforts to cause a shelf registration statement covering the resale of the notes and the common stock issuable upon conversion of the notes to be declared effective by the SEC and to pay additional interest if such registration obligations are not performed. In the event that the Company does not comply with such obligations, the agreement provides that additional interest will accrue on the principal amount of the notes at a rate of 0.25% per annum during the 90-day period immediately following a registration default and will increase to 0.50% per annum beginning on the 91st day of the registration default until all such defaults have been cured. There are no other alternative settlement methods and, other than the 0.50% per annum maximum penalty rate, the agreement contains no limit on the maximum potential amount of penalty interest that could be paid in the event the Company does not meet these requirements. However, the Company s obligation to file, have declared effective or maintain the effectiveness of a shelf registration statement (and pay additional interest) is suspended to the extent and during the periods that the notes are eligible to be transferred without registration under the Securities Act of 1933, as amended (the Securities Act) by a person who is not an affiliate of the Company (and has not been an affiliate for the 90 days preceding such transfer) pursuant to Rule 144 under the Securities Act without any volume or manner of sale restrictions. The Company did not issue any of the convertible senior notes to any of its affiliates. As a result, the Company currently expects that prior to the time by which the Company would be required to file and have declared effective a shelf registration statement covering the resale of the convertible senior notes that the notes will be eligible to be transferred without registration pursuant to Rule 144 without any volume or manner of sale restrictions. Accordingly, the Company does not believe that the payment of additional interest is probable, and therefore no related liability has been recorded in the condensed consolidated financial statements.

Senior Notes Due 2015

In June 2008, Cricket issued $300 million of 10.0% unsecured senior notes due 2015 in a private placement to institutional buyers. The notes bear interest at the rate of 10.0% per year, payable semi-annually in cash in arrears, which interest payments commenced in January 2009. 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.

Prior to July 15, 2011, Cricket may redeem up to 35% of the aggregate principal amount of the notes at a redemption price of 110.0% 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 July 15, 2012, 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, if any, thereon to the redemption date. 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 July 15, 2012 plus (2) all remaining required interest payments due on such notes through July 15, 2012 (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 July 15, 2012, at a redemption price of 105.0% and 102.5% of the principal amount thereof if redeemed during the twelve months ending July 15, 2013 and 2014, respectively, or at 100% of the principal amount if redeemed during the twelve months ending July 15, 2015, plus accrued and unpaid interest, if any, thereon to the redemption date.

If a change of control occurs (which includes the acquisition of beneficial ownership of 35% or more of Leap s equity securities, a sale of all or substantially all of the assets of Leap and its restricted subsidiaries and a change in a majority of the members of Leap s board of directors that is not approved by the board), 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, if any, thereon to the repurchase date.

In connection with the private placement of these senior notes, the Company entered into a registration rights agreement with the initial purchasers of the notes in which the Company agreed, under certain circumstances, to use its reasonable best efforts to offer registered notes in exchange for the notes or to cause a shelf registration statement covering the resale of the notes to be declared effective by the SEC and to pay additional interest if such registration obligations are not performed. In the event that the Company does not comply with such obligations, 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 a registration default and will increase by 0.50% per annum at the end of each subsequent 90-day period until all such defaults are cured, 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 penalty interest that could be paid in the event the Company does not meet these requirements. However, the Company s obligation to file, have declared effective or maintain the effectiveness of a registration statement for an exchange offer or a shelf registration statement (and pay additional interest) is only triggered to the extent that the notes are not eligible to be transferred without registration under the Securities Act by a person who is not an affiliate of the Company (and has not been an affiliate for the 90 days preceding such transfer) pursuant to Rule 144 under the Securities Act without any volume or manner of sale restrictions. The Company did not issue any of the senior notes to any of its affiliates. As a result, the Company currently expects that prior to the time by which the Company would be required to file and have declared effective a registration statement for an exchange offer or a shelf registration statement covering the senior notes that the notes will be eligible to be transferred without registration pursuant to Rule 144 without any volume or manner of sale restrictions. Accordingly, the Company does not believe that the payment of additional interest is probable, and therefore no related liability has been recorded in the condensed consolidated financial statements.

Note 7. Significant Acquisitions and Dispositions

On March 4, 2009, the Company completed its exchange of certain wireless spectrum with MetroPCS Communications, Inc. (MetroPCS). Under the spectrum exchange agreement, the Company acquired an additional 10 MHz of spectrum in San Diego, Fresno, Seattle and certain other Washington and Oregon markets, and MetroPCS acquired an additional 10 MHz of spectrum in Dallas-Ft. Worth, Shreveport-Bossier City, Lakeland-Winter Haven, Florida and certain other northern Texas markets. The carrying values of the wireless licenses transferred to MetroPCS under the spectrum exchange agreement were $45.6 million, and the Company recognized a net gain of approximately $4.4 million upon the closing of the transaction.

Note 8. Arrangements with Variable Interest Entities

The Company consolidates its interests in LCW Wireless and Denali in accordance with FIN 46(R) because these entities are variable interest entities and the Company will absorb a majority of their expected losses. LCW Wireless and Denali are non-guarantor subsidiaries and the carrying amount and classification of their assets and liabilities are presented in Note 10. Both entities offer (through wholly owned subsidiaries) Cricket service and, accordingly, are generally subject to the same risks in conducting operations as the Company.

On January 1, 2009, the Company adopted the provisions of SFAS 160. SFAS 160 changes the accounting treatment and classification with respect to certain ownership interests held in LCW Wireless and Denali. As a result of the adoption of SFAS 160, the Company has not allocated losses to certain of its minority partners, but rather has recorded accretion (or mark-to-market) charges to bring its minority partners interests to their estimated redemption values at each reporting period. In addition, the Company now classifies these accretion charges as a component of consolidated net income (loss) available to its common stockholders rather than as a component of net income (loss). Although the accounting treatment for certain of these interests has been modified, the Company continues to classify these noncontrolling interests in the mezzanine section of the consolidated balance sheets in accordance with EITF Topic D-98. The cumulative impact to the Company s condensed consolidated financial statements as a result of the adoption of SFAS 160 resulted in a $9.2 million reduction to stockholders equity, a $5.8 million reduction to deferred tax liabilities and a $15.0 million increase to redeemable noncontrolling interests (formerly referred to as minority interests) as of December 31, 2008. The Company has retrospectively applied SFAS 160 to all prior periods.

Arrangements with LCW Wireless

The membership interests in LCW Wireless are held as follows: Cricket holds a 73.3% non-controlling membership interest; CSM Wireless, LLC (CSM) holds a 24.7% non-controlling membership interest; and WLPCS Management, LLC (WLPCS) holds a 2% controlling membership interest. As of March 31, 2009, Cricket s equity contributions to LCW totaled $51.8 million.

Limited Liability Company Agreement

Under the amended and restated limited liability company agreement of LCW Wireless, LLC (LCW LLC Agreement), WLPCS has the option to put its entire equity interest in LCW Wireless to Cricket for a purchase price not to exceed $3.8 million during a 30-day period commencing on the earlier to occur of August 9, 2010 and the date of a sale of all or substantially all of the assets, or the liquidation, of LCW Wireless. If the put option is exercised, the consummation of this sale will be subject to FCC approval. The Company has recorded this obligation to WLPCS, including related accretion charges using the effective interest method, as a component of redeemable noncontrolling interests in the condensed consolidated balance sheets. As of March 31, 2009 and December 31, 2008, these noncontrolling interests had a carrying value of $2.7 million and $2.6 million, respectively.

Under the LCW LLC Agreement, CSM also has the option, during specified periods, to put its entire equity interest in LCW Wireless to Cricket in exchange for either cash, Leap common stock, or a combination thereof, as determined by Cricket at its discretion, for a purchase price calculated on a pro rata basis using either the appraised value of LCW Wireless or a multiple of Leap s enterprise value divided by its EBITDA and applied to LCW Wireless adjusted EBITDA to impute an enterprise value and equity value to LCW Wireless. The Company has recorded this obligation to CSM, including related accretion charges to bring the underlying membership units to their estimated redemption value, as a component of redeemable noncontrolling interests in the condensed consolidated balance sheets. As of March 31, 2009 and December 31, 2008, these noncontrolling interests had a carrying value of $27.8 million and $26.0 million, respectively.

Management Agreement

Cricket and LCW Wireless are party to a management services agreement, pursuant to which LCW Wireless has the right to obtain management services from Cricket in exchange for a monthly management fee based on Cricket s costs of providing such services plus a mark-up for administrative overhead.

Other

LCW Wireless working capital requirements have been satisfied to date through the members initial equity contributions, third party debt financing and cash provided by operating activities. Leap, Cricket and their wholly owned subsidiaries are not required to provide financial support to LCW Wireless.

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Arrangements with Denali

Cricket and Denali Spectrum Manager, LLC (DSM) formed Denali as a joint venture to participate (through a wholly owned subsidiary) in FCC Auction #66. Cricket owns an 82.5% non-controlling membership interest and DSM owns a 17.5% controlling membership interest in Denali. As of March 31, 2009, Cricket s equity contributions to Denali totaled $83.6 million.

Limited Liability Company Agreement

Under the amended and restated limited liability company agreement of Denali, DSM may offer to sell its entire membership interest in Denali to Cricket in April 2012 and each year thereafter for a purchase price equal to DSM s equity contributions in cash to Denali, plus a specified return, payable in cash. If exercised, the consummation of the sale will be subject to FCC approval. The Company has recorded this obligation to DSM, including related accretion charges using the effective interest method, as a component of redeemable noncontrolling interests in the condensed consolidated balance sheets. As of March 31, 2009 and December 31, 2008, these noncontrolling interests had a carrying value of $44.3 million and $43.3 million, respectively.

Senior Secured Credit Agreement

Cricket entered into a senior secured credit agreement with Denali and its subsidiaries to fund the payment to the FCC for the AWS license acquired by Denali in Auction #66 and to fund a portion of the costs of the construction and operation of the wireless network using such license. As of March 31, 2009, total borrowings under the license acquisition sub-facility totaled $223.4 million and total borrowings under the build-out sub-facility totaled $234.5 million. During January 2009, the build-out sub-facility was increased to a total of $394.5 million, approximately $160.0 million of which was unused as of March 31, 2009. The Company does not anticipate making any future increases to the size of the build-out sub-facility. Additional funding requests would be subject to approval by Leap s board of directors. Loans under the credit agreement accrue interest at the rate of 14% per annum and such interest is added to principal quarterly. All outstanding principal and accrued interest is due in April 2021.

Management Agreement.

Cricket and Denali Spectrum License, LLC, a wholly owned subsidiary of Denali (Denali License), are party to a management services agreement, pursuant to which Cricket is to provide management services to Denali License and its subsidiaries in exchange for a monthly management fee based on Cricket s costs of providing such services plus overhead.

The following table provides a summary of the changes in value of the Company s redeemable noncontrolling interests (in thousands):

	Three Months Ended March 31, 2009	Three Months Ended March 31, 2008
Beginning balance, January 1	$ 71,879	$ 61,868
Accretion of redeemable noncontrolling interests	2,936	1,923
Ending balance, March 31	$ 74,815	$ 63,791

Note 9. Commitments and Contingencies

As more fully described below, the Company is involved in a variety of lawsuits, claims, investigations and proceedings concerning intellectual property, securities, commercial and other matters. Due in part to the growth and expansion of its business operations, the Company has become subject to increased amounts of litigation, including disputes alleging intellectual property infringement.

The Company believes that any damage amounts alleged in the matters discussed below are not necessarily meaningful indicators of its potential liability. The Company determines whether it should accrue an estimated loss for a contingency in a particular legal proceeding by assessing whether a loss is deemed probable and can be

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reasonably estimated. The Company reassesses its views on estimated losses on a quarterly basis to reflect the impact of any developments in the matters in which it is involved.

Legal proceedings are inherently unpredictable, and the matters in which the Company is involved often present complex legal and factual issues. The Company vigorously pursues defenses in legal proceedings and engages in discussions where possible to resolve these matters on favorable terms. The Company s policy is to recognize legal costs as incurred. It is possible, however, that the Company s business, financial condition and results of operations in future periods could be materially adversely affected by increased litigation expense, significant settlement costs and/or unfavorable damage awards.

Patent Litigation

Freedom Wireless

On December 10, 2007, the Company was sued by Freedom Wireless, Inc. (Freedom Wireless), in the United States District Court for the Eastern District of Texas, Marshall Division, for alleged infringement of U.S. Patent No. 5,722,067 entitled Security Cellular Telecommunications System, U.S. Patent No. 6,157,823 entitled Security Cellular Telecommunications System, and U.S. Patent No. 6,236,851 entitled Prepaid Security Cellular Telecommunications System. Freedom Wireless alleged that its patents claim a novel cellular system that enables subscribers of prepaid services to both place and receive cellular calls without dialing access codes or using modified telephones. The complaint sought unspecified monetary damages, increased damages under 35 U.S.C. § 284 together with interest, costs and attorneys fees, and an injunction. On September 3, 2008, Freedom Wireless amended its infringement contentions to assert that the Company s Cricket unlimited voice service, in addition to its Jump® Mobile and Cricket by Week™ services, infringes claims under the patents at issue. On January 19, 2009, the Company and Freedom Wireless entered into an agreement to settle this lawsuit, and the parties are finalizing the terms of a license agreement which will provide Freedom Wireless royalties on certain of the Company s products and services.

Electronic Data Systems

On February 4, 2008, the Company and certain other wireless carriers were sued by Electronic Data Systems Corporation (EDS) in the United States District Court for the Eastern District of Texas, Marshall Division, for alleged infringement of U.S. Patent No. 7,156,300 entitled System and Method for Dispensing a Receipt Reflecting Prepaid Phone Services and U.S. Patent No. 7,255,268 entitled System for Purchase of Prepaid Telephone Services. EDS has alleged that the sale and marketing by the Company of prepaid wireless cellular telephone services infringes these patents, and the complaint seeks an injunction against further infringement, damages (including enhanced damages) and attorneys fees. The parties have reached an agreement in principle to settle this lawsuit.

EMSAT Advanced Geo-Location Technology

On October 7, 2008, the Company and certain other wireless carriers were sued by EMSAT Advanced Geo-Location Technology, LLC (EMSAT) and Location Based Services LLC (LBS) in the United States District Court for the Eastern District of Texas, Marshall Division for alleged infringement of U.S. Patent Nos. 5,946,611, 6,847,822, and 7,289,763 entitled Cellular Telephone System that Uses Position of a Mobile Unit to Make Call Management Decisions. EMSAT and LBS alleged that the Company s sale, offer for sale, use, and/or inducement to use mobile E911 services infringed one or more claims of these patents. While not directed at the Company, the complaint further alleged that the other defendants sale, offer for sale, use, and/or inducement to use commercial location-based services also infringed one or more claims of these patents. The complaint sought unspecified damages (including pre- and post-judgment interest), costs, and attorney s fees, but did not request injunctive relief. In March 2009, the Company and EMSAT settled this lawsuit and entered into a license agreement with respect to the patents at issue.

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DNT

On May 1, 2009, the Company was sued by DNT LLC (DNT) in the United States District Court for the Eastern District of Virginia, Richmond Division, for alleged infringement of U.S. Reissued Patent No. RE37,660 entitled Automatic Dialing System. DNT alleges that the Company uses, encourages the use of, sells, offers for sale and/or imports voice and data service and wireless modem cards for computers designed to be used in conjunction with cellular networks and that such acts constitute both direct and indirect infringement of DNT s patent. DNT alleges that the Company s infringement is willful, and the complaint seeks an injunction against further infringement, damages (including enhanced damages) and attorneys fees. The Company is currently evaluating the complaint and is preparing to respond.

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, plus 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 court denied defendants motion and the defendants appealed the denial of the motion to the Mississippi Supreme Court. On November 15, 2007, the Mississippi Supreme Court issued an opinion denying the appeal and remanded the action to the trial court. The defendants filed an answer to the complaint on May 2, 2008. Trial in this matter is scheduled to begin in October 2009.

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. An arbitration hearing was held in early November 2008, and the arbitrator issued a final award on February 13, 2009 in which he denied AWG s claims in their entirety. On March 20, 2009, defendants filed a motion to confirm the final award in the Circuit Court. On March 30, 2009, plaintiffs filed an opposition to that motion, as well as a motion to vacate the final award. Defendants filed an opposition to the motion to vacate on April 10, 2009. Both the defendants motion to confirm and plaintiffs motion to vacate remain pending.

Although Leap is not a defendant in either the Whittington or AWG Lawsuits, several of the defendants have indemnification agreements with the Company. Due to the complex nature of the legal and factual issues involved, management believes that the defendants liability, if any, from the Whittington and AWG Lawsuits and any indemnity claims of the defendants against Leap is not presently determinable.

Securities and Derivative Litigation

Leap is a nominal defendant in two shareholder derivative suits purporting to assert claims on behalf of Leap against certain of its current and former directors and officers. The lawsuits are pending in the California Superior Court for the County of San Diego and in the United States District Court for the Southern District of California. The state action was stayed on August 22, 2008 pending resolution of the federal action. The plaintiff in the federal action filed an amended complaint on September 12, 2008 asserting, among other things, claims for alleged breach of fiduciary duty, gross mismanagement, waste of corporate assets, unjust enrichment, and proxy violations based on the November 9, 2007 announcement that the Company was restating certain of its financial statements, claims alleging breach of fiduciary duty based on the September 2007 unsolicited merger proposal from MetroPCS Communications, Inc. and claims alleging illegal insider trading by certain of the individual defendants. The derivative complaints seek a judicial determination that the claims may be asserted derivatively on behalf of Leap, and unspecified damages, equitable and/or injunctive relief, imposition of a constructive trust, disgorgement, and attorney s fees and costs. Leap and the individual defendants have filed motions to dismiss the amended federal complaint.

Leap and certain current and former officers and directors, and Leap s independent registered public accounting firm, PricewaterhouseCoopers LLP, also have been named as defendants in a consolidated securities class action lawsuit filed in the United States District Court for the Southern District of California. Plaintiffs allege that the defendants violated Section 10(b) of the Exchange Act and Rule 10b-5, and Section 20(a) of the Exchange Act. The consolidated complaint alleges that the defendants made false and misleading statements about Leap s internal controls, business and financial results, and customer count metrics. The claims are based primarily on the November 9, 2007 announcement that the Company was restating certain of its financial statements and statements made in its August 7, 2007 second quarter 2007 earnings release. The lawsuit seeks, among other relief, a determination that the alleged claims may be asserted on a class-wide basis and unspecified damages and attorney s fees and costs. On January 9, 2009, the federal court granted defendants motions to dismiss the complaint for failure to state a claim. On February 23, 2009, defendants were served with an amended complaint which does not name PricewaterhouseCoopers LLP. Defendants motions to dismiss are due on May 22, 2009.

Due to the complex nature of the legal and factual issues involved in these derivative and class action matters, their outcomes are not presently determinable. If either or both of these matters were to proceed beyond the pleading stage, the Company could be required to incur substantial costs to defend these matters and/or be required to pay substantial damages or settlement costs, which could materially adversely affect the Company s business, financial condition and results of operations.

Department of Justice Inquiry

On January 7, 2009, the Company received a letter from the Civil Division of the United States Department of Justice, or the DOJ. In its letter, the DOJ alleges that between approximately 2002 and 2006, the Company failed to comply with certain federal postal regulations that required the Company to update customer mailing addresses in exchange for receiving certain bulk mailing rate discounts. As a result, the DOJ has asserted that the Company violated the False Claims Act (FCA) and is therefore liable for damages, which the DOJ estimates at $80,000 per month (which amount is subject to trebling under the FCA), plus statutory penalties of up to $11,000 per mailing. The DOJ has also asserted as an alternative theory of liability that the Company is liable on a basis of unjust enrichment for estimated single damages in the same of amount of $80,000 per month. Due to the complex nature of the legal and factual issues involved with the alleged FCA claims, the outcome of this matter is not presently determinable.

Other Litigation

In addition to the matters described above, the Company is often involved in certain other claims, including disputes alleging intellectual property infringement, which arise in the ordinary course of business and seek monetary damages and other relief. Based upon information currently available to the Company, none of these other claims is expected to have a material adverse effect on the Company s business, financial condition or results of operations.

Indemnification Agreements

From time to time, the Company enters into indemnification agreements with certain parties in the ordinary course of business, including agreements with manufacturers, licensors and suppliers who provide it with equipment, software and technology that it uses in its business, as well as with purchasers of assets, lenders, lessors and other vendors. Indemnification agreements are generally entered into in commercial and other transactions in an attempt to allocate potential risk of loss. The Company has not recorded any liability with respect to any potential indemnification obligations it may have under agreements to which it was party as of March 31, 2009.

Spectrum Clearing Obligations

Portions of the AWS spectrum that the Company and Denali License Sub hold are currently used by U.S. government and/or incumbent commercial licensees. FCC rules require winning bidders to avoid interfering with these existing users or to clear the incumbent users from the spectrum through specified relocation procedures. To facilitate the clearing of this spectrum, the FCC adopted a transition and cost-sharing plan whereby incumbent non-governmental users may be reimbursed for costs they incur in relocating from the spectrum by AWS licensees benefiting from the relocation. In addition, this plan requires the AWS licensees and the applicable incumbent non-governmental user to negotiate for a period of two or three years (depending on the type of incumbent user and whether the user is a commercial or non-commercial licensee), triggered from the time that an AWS licensee notifies the incumbent user that it desires the incumbent to relocate. If no agreement is reached during this period of time, the FCC rules provide that an AWS licensee may force the incumbent non-governmental user to relocate at the licensee s expense. The FCC rules also provide that a portion of the proceeds raised in Auction #66 will be used to reimburse the costs of governmental users relocating from the AWS spectrum. However, some such users may delay relocation for an extended and undetermined period of time. The Company is continuing to evaluate its spectrum clearing obligations, and the potential costs that may be incurred could be material.

System Equipment Purchase Agreements

In 2007, the Company entered into certain system equipment purchase agreements, which generally have a term of three years. In the agreements, the Company agreed to purchase and/or license wireless communications systems, products and services designed to be AWS functional at a current estimated cost to the Company of approximately $266 million, which commitments are subject, in part, to the necessary clearance of spectrum in the markets to be built. Under the terms of the agreements, the Company is entitled to certain pricing discounts, credits and incentives, which credits and incentives are subject to the Company s achievement of its purchase commitments, and to certain technical training for the Company s personnel. If the purchase commitment levels per the agreements are not achieved, the Company may be required to refund any previous credits and incentives it applied to historical purchases.

Tower Provider Commitments

The Company has entered into master lease agreements with certain national tower vendors. These agreements generally provide for discounts, credits or incentives if the Company reaches specified lease commitment levels. If the commitment levels per the agreements are not achieved, the Company may be obligated to pay remedies for shortfalls in meeting these levels. These remedies would have the effect of increasing the Company s rent expense.

Outstanding Letters of Credit and Surety Bonds

As of March 31, 2009 and December 31, 2008, the Company had approximately $10.8 million and $9.6 million, respectively, of letters of credit outstanding, which were collateralized by restricted cash, related to contractual commitments under certain of its administrative facility leases and surety bond programs and its workers compensation insurance program. As of March 31, 2009 and December 31, 2008, approximately $0.5 million and $4.3 million, respectively, of these letters of credit were issued pursuant to the Credit Agreement and were considered as usage for purposes of determining availability under the revolving credit facility.

As of March 31, 2009 and December 31, 2008, the Company had approximately $5.1 million and $5.0 million, respectively, of surety bonds outstanding to guarantee the Company s performance with respect to certain of its contractual obligations.

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Note 10. Guarantor Financial Information

Of the $1,400 million of senior notes issued by Cricket (the Issuing Subsidiary), $1,100 million are due in 2014 and $300 million are due in 2015. The notes 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 wireless licenses (collectively, the Guarantor Subsidiaries).

The indentures governing these notes limit, 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, the Issuing Subsidiary, the Guarantor Subsidiaries, non-Guarantor Subsidiaries and total consolidated Leap and subsidiaries as of March 31, 2009 and December 31, 2008 and for the three months ended March 31, 2009 and 2008 is presented below. The equity method of accounting is used to account for ownership interests in subsidiaries, where applicable.

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Condensed Consolidating Balance Sheet as of March 31, 2009 (unaudited and in thousands):

	Guarantor Parent Company	Issuing Subsidiary	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating and Eliminating Adjustments	Consolidated
Assets						
Cash and cash equivalents	$ 79	$ 153,157	$	$ 28,647	$	$ 181,883
Short-term investments		304,729		1,500		306,229
Restricted cash, cash equivalents and short-term investments	1,612	2,937		10		4,559
Inventories		99,424		4,493		103,917
Other current assets	33	56,588		3,342	(778)	59,185
Total current assets	1,724	616,835		37,992	(778)	655,773
Property and equipment, net	2	1,679,956		287,359	(10,751)	1,956,566
Investments in and advances to affiliates and consolidated subsidiaries	1,829,253	2,130,948	40,865	9,426	(4,010,492)	
Wireless licenses		19,956	1,539,095	333,131		1,892,182
Goodwill		430,101				430,101
Other intangible assets, net		28,409				28,409
Other assets	7,765	77,398		2,596		87,759
Total assets	$ 1,838,744	$ 4,983,603	$ 1,579,960	$ 670,504	$ (4,022,021)	$ 5,050,790
Liabilities and Stockholders Equity						
Accounts payable and accrued liabilities	$ 2	$ 305,435	$	$ 23,154	$	$ 328,591
Current maturities of long-term debt		9,000		5,000		14,000
Intercompany payables	10,717	297,910	7,684	13,508	(329,819)	
Other current liabilities	2,428	175,731		8,118	(778)	185,499
Total current liabilities	13,147	788,076	7,684	49,780	(330,597)	528,090
Long-term debt	250,000	2,278,950		599,763	(567,667)	2,561,046
Deferred tax liabilities		224,060				224,060
Other long-term liabilities		80,392		6,790		87,182
Total liabilities	263,147	3,371,478	7,684	656,333	(898,264)	3,400,378
		30,491		44,324		74,815

Redeemable noncontrolling interests						
Stockholders equity (deficit)	1,575,597	1,581,634	1,572,276	(30,153)	(3,123,757)	1,575,597
Total liabilities and stockholders equity	$ 1,838,744	$ 4,983,603	$ 1,579,960	$ 670,504	$ (4,022,021)	$ 5,050,790

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Condensed Consolidating Balance Sheet as of December 31, 2008 (in thousands):

	Guarantor Parent Company	Issuing Subsidiary	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating and Eliminating Adjustments	Consolidated
Assets						
Cash and cash equivalents	$ 27	$ 333,119	$	$ 24,562	$	$ 357,708
Short-term investments		236,893		1,250		238,143
Restricted cash, cash equivalents and short-term investments	1,611	3,129		40		4,780
Inventories		124,719		1,574		126,293
Other current assets	83	50,915		2,062	(1,112)	51,948
Total current assets	1,721	748,775		29,488	(1,112)	778,872
Property and equipment, net	2	1,594,502		256,370	(8,156)	1,842,718
Investments in and advances to affiliates and consolidated subsidiaries	1,866,196	2,065,102	19,133	9,227	(3,959,658)	
Wireless licenses		19,957	1,489,564	332,277		1,841,798
Assets held for sale			45,569			45,569
Goodwill		430,101				430,101
Intangible assets, net		29,854				29,854
Other assets	8,043	72,434		3,468		83,945
Total assets	$ 1,875,962	$ 4,960,725	$ 1,554,266	$ 630,830	$ (3,968,926)	$ 5,052,857
Liabilities and Stockholders Equity						
Accounts payable and accrued liabilities	$ 20	$ 297,461	$	$ 27,813	$	$ 325,294
Current maturities of long-term debt		9,000		4,000		13,000
Intercompany payables	9,615	277,327	7,440	23,687	(318,069)	
Other current liabilities	3,651	153,081		6,382	(1,112)	162,002
Total current liabilities	13,286	736,869	7,440	61,882	(319,181)	500,296
Long-term debt	250,000	2,281,525		524,007	(489,507)	2,566,025
Deferred tax liabilities		217,631				217,631
Other long-term liabilities		78,861		5,489		84,350
Total liabilities	263,286	3,314,886	7,440	591,378	(808,688)	3,368,302
		28,610		43,269		71,879

Redeemable noncontrolling interests						
Stockholders equity (deficit)	1,612,676	1,617,229	1,546,826	(3,817)	(3,160,238)	1,612,676
Total liabilities and stockholders equity	$ 1,875,962	$ 4,960,725	$ 1,554,266	$ 630,830	$ (3,968,926)	$ 5,052,857

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Condensed Consolidating Statement of Operations for the Three Months Ended March 31, 2009 (unaudited and in thousands):

	Guarantor Parent Company	Issuing Subsidiary	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating and Eliminating Adjustments	Consolidated
Revenues:						
Service revenues	$	$ 497,505	$	$ 16,500	$	$ 514,005
Equipment revenues		69,120		3,862		72,982
Other revenues		340	21,854	333	(22,527)	
Total revenues		566,965	21,854	20,695	(22,527)	586,987
Operating expenses:						
Cost of service (exclusive of items shown separately below)		165,958		476	(22,090)	144,344
Cost of equipment		145,010		12,786		157,796
Selling and marketing		99,198		4,325		103,523
General and administrative	1,101	87,386	243	7,884	(437)	96,177
Depreciation and amortization		82,416		7,317		89,733
Total operating expenses	1,101	579,968	243	32,788	(22,527)	591,573
Gain on sale or disposal of assets		3,581				3,581
Operating income (loss)	(1,101)	(9,422)	21,611	(12,093)		(1,005)
Equity in net loss of consolidated subsidiaries	(49,235)	(5,522)			54,757	
Equity in net income of investee		1,479				1,479
Interest income	6,064	19,056		1,326	(25,501)	945
Interest expense	(3,088)	(47,898)		(14,467)	23,602	(41,851)
Other expense, net		(63)				(63)
Income (loss) before income taxes	(47,360)	(42,370)	21,611	(25,234)	52,858	(40,495)
Income tax expense		(6,865)				(6,865)
Net income (loss)	(47,360)	(49,235)	21,611	(25,234)	52,858	(47,360)
Accretion of redeemable noncontrolling interests		(1,881)		(1,055)		(2,936)
Net income (loss) attributable to common	$ (47,360)	$ (51,116)	$ 21,611	$ (26,289)	$ 52,858	$ (50,296)

stockholders

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Condensed Consolidating Statement of Operations for the Three Months Ended March 31, 2008 (unaudited and in thousands):

	Guarantor Parent Company	Issuing Subsidiary	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating and Eliminating Adjustments	Consolidated
Revenues:						
Service revenues	$	$ 386,898	$	$ 12,031	$	$ 398,929
Equipment revenues		68,350		1,105		69,455
Other revenues			17,171		(17,171)	
Total revenues		455,248	17,171	13,136	(17,171)	468,384
Operating expenses:						
Cost of service (exclusive of items shown separately below)		122,959		5,284	(17,073)	111,170
Cost of equipment		111,411		2,810		114,221
Selling and marketing		55,414		2,686		58,100
General and administrative	1,399	71,186	247	3,173	(98)	75,907
Depreciation and amortization	11	80,483		2,145		82,639
Total operating expenses	1,410	441,453	247	16,098	(17,171)	442,037
Loss on sale or disposal of assets		(291)				(291)
Operating income (loss)	(1,410)	13,504	16,924	(2,962)		26,056
Equity in net loss of consolidated subsidiaries	(15,568)	(881)			16,449	
Equity in net loss of investee		(1,062)				(1,062)
Interest income	7	14,243		1,098	(10,567)	4,781
Interest expense		(34,449)		(8,150)	9,242	(33,357)
Other income (expense), net	75	(4,111)				(4,036)
Income (loss) before income taxes	(16,896)	(12,756)	16,924	(10,014)	15,124	(7,618)
Income tax expense		(2,812)	(6,466)			(9,278)
Net income (loss)	(16,896)	(15,568)	10,458	(10,014)	15,124	(16,896)
Accretion of redeemable noncontrolling interests		(968)		(955)		(1,923)
Net income (loss) attributable to common stockholders	$ (16,896)	$ (16,536)	$ 10,458	$ (10,969)	$ 15,124	$ (18,819)

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Condensed Consolidating Statement of Cash Flows for the Three Months Ended March 31, 2009 (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	$ 53	$ 120,806	$ 1,775	$ (22,651)	$ (31)	$ 99,952
Investing activities:						
Purchases of and changes in prepayments for property and equipment		(172,190)		(31,089)		(203,279)
Purchases of and deposits for wireless licenses and spectrum clearing costs			(1,775)	(770)		(2,545)
Proceeds from the sale of wireless licenses		2,965				2,965
Purchases of investments		(234,563)				(234,563)
Sales and maturities of investments		165,914				165,914
Investments in and advances to affiliates and consolidated subsidiaries	(853)				853	
Purchase of membership units						
Change in restricted cash	(1)	(1,163)		30		(1,134)
Net cash used in investing activities	(854)	(239,037)	(1,775)	(31,829)	853	(272,642)
Financing activities:						
Proceeds from long-term debt				60,000	(60,000)	
Issuance of related party debt		(60,000)			60,000	
Repayment of long-term debt		(2,250)		(1,404)		(3,654)
Capital contributions, net	853	853			(853)	853
Noncontrolling interests distribution				(31)	31	
Other		(334)				(334)
Net cash provided by (used in) financing activities	853	(61,731)		58,565	(822)	(3,135)
	52	(179,962)		4,085		(175,825)

Net increase (decrease) in cash and cash equivalents						
Cash and cash equivalents at beginning of period	27	333,119		24,562		357,708
Cash and cash equivalents at end of period	$ 79	$ 153,157	$	$ 28,647	$	$ 181,883

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Condensed Consolidating Statement of Cash Flows for the Three Months Ended March 31, 2008 (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	$ 513	$ 111,533	$ 805	$ 22,829	$	$ 135,680
Investing activities:						
Purchases of and changes in prepayments for property and equipment		(120,681)		(39,157)		(159,838)
Purchases of and deposits for wireless licenses and spectrum clearing costs		(70,022)	(805)	(50)		(70,877)
Purchases of investments		(19,744)				(19,744)
Sales and maturities of investments		124,341				124,341
Investments in and advances to affiliates and consolidated subsidiaries	(2,977)				2,977	
Purchase of membership units		(1,033)				(1,033)
Change in restricted cash	(575)	324				(251)
Net cash used in investing activities	(3,552)	(86,815)	(805)	(39,207)	2,977	(127,402)
Financing activities:						
Repayment of long-term debt		(2,250)				(2,250)
Capital contributions, net	2,977	2,977			(2,977)	2,977
Other		(5,158)				(5,158)
Net cash provided by (used in) financing activities	2,977	(4,431)			(2,977)	(4,431)
Net increase (decrease) in cash and cash equivalents	(62)	20,287		(16,378)		3,847
Cash and cash equivalents at beginning of period	62	399,153		34,122		433,337
Cash and cash equivalents at end of period	$	$ 419,440	$	$ 17,744	$	$ 437,184

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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. Leap, Cricket 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 2009 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, 2008 filed with the Securities and Exchange Commission, or SEC, on February 27, 2009.

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 generally identify forward-looking statements by forward-looking words such as believe, think, may, could, will, estimate, continue, anticipate, intend, seek, plan, and 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 in or implied by 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;
- the duration and severity of the current recession in the United States and changes in economic conditions, including interest rates, consumer credit conditions, consumer debt levels, consumer confidence, unemployment rates, energy costs and other macro-economic factors that could adversely affect demand for the services we provide;
- the impact of competitors initiatives;
- our ability to successfully implement product offerings and execute effectively on our planned coverage expansion, launches of markets we acquired in the Federal Communications Commission s, or FCC s, auction for Advanced Wireless Services, or Auction #66, and other strategic activities;
- our ability to obtain roaming services from other carriers at cost-effective rates;
- our ability to maintain effective internal control over financial reporting;
- delays in our market expansion plans, including delays resulting from any difficulties in funding such expansion through our existing cash, cash generated from operations or additional capital, or delays by existing U.S. government and other private sector wireless operations in clearing the Advanced Wireless Services, or 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, indentures 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

Company Overview

We are a wireless communications carrier that offers digital wireless services in the U.S. under the Cricket® brand. Our Cricket service offerings provide customers with unlimited wireless services for a flat rate without requiring a fixed-term contract or a credit check.

Cricket service is offered by Cricket, a wholly owned subsidiary of Leap, and is also offered in Oregon by LCW Wireless Operations, LLC, or LCW Operations, and in the upper Midwest by Denali Spectrum Operations, LLC, or Denali Operations. 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, and owns an indirect non-controlling interest in Denali Operations through an 82.5% non-controlling interest in Denali Spectrum, LLC, or Denali. LCW Wireless and Denali are designated entities under FCC regulations. We consolidate our interests in LCW Wireless and Denali in accordance with FIN 46(R) because these entities are variable interest entities and we will absorb a majority of their expected losses.

At March 31, 2009, Cricket service was offered in 32 states and had approximately 4.34 million customers. As of March 31, 2009, we, LCW Wireless License, LLC, or LCW License (a wholly owned subsidiary of LCW Operations), and Denali Spectrum License Sub, LLC, or Denali License Sub (an indirect wholly owned subsidiary of Denali) owned wireless licenses covering an aggregate of approximately 179.4 million POPs (adjusted to eliminate duplication from overlapping licenses). The combined network footprint in our operating markets covered approximately 83.8 million POPs as of March 31, 2009, which includes incremental POPs attributed to ongoing footprint expansion in existing markets. The licenses we and Denali purchased in Auction #66, together with the existing licenses we own, provide 20 MHz 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 Sub were to make available to us certain of its spectrum.

We plan to expand our network footprint by launching Cricket service in new markets and improving coverage in our existing markets. We and Denali Operations intend to launch markets covering approximately 25 million additional POPs by the middle of 2009 (measured on a cumulative basis beginning January 2009). As part of these expansion plans, during the three months ended March 31, 2009, we and Denali Operations launched new markets in Chicago and Philadelphia covering approximately 16.7 million additional POPs. In addition, we also previously identified up to approximately 16 million additional POPs that we could elect to cover with Cricket service in the next 18 to 24 months. We currently expect to make a determination with respect to any launch of these additional POPs by the middle of 2009. We intend to fund the costs required to build out and launch any new markets associated with these 16 million additional POPs with cash generated from operations. The pace and timing of any such build-out and launch activities will depend upon the performance of our business and our available cash resources. We also plan to continue to improve our network coverage and capacity in many of our existing markets, allowing us to offer our customers an improved service area. In addition to these expansion plans, we and Denali License Sub hold licenses in other markets that are suitable for Cricket service, and we and Denali Operations may develop some of the licenses covering these additional POPs through partnerships with others.

Our Cricket service offerings are based on providing unlimited wireless services to customers, and the value of unlimited wireless services is the foundation of our business. Our primary Cricket service is Cricket Wireless, which offers customers unlimited wireless voice and data services for a flat monthly rate. Our most popular Cricket Wireless rate plan combines unlimited local and U.S. long distance service from any Cricket service area with unlimited use of multiple calling features and messaging services. We also offer a flexible payment option, BridgePay[tm], which gives our customers greater flexibility in the use and payment of our Cricket Wireless service and which we believe will help us to improve customer retention. In addition to our Cricket Wireless voice and data services, we offer Cricket Broadband, our unlimited mobile broadband service, which allows customers to access the internet through their computers for one low, flat rate with no long-term commitments or credit checks. As of

March 31, 2009, our Cricket Broadband service was available in all of our and our joint ventures Cricket markets, and we intend to make the service available in additional new Cricket markets that we launch. In addition, we also offer Cricket PAYGo[tm], a daily pay-as-you-go unlimited prepaid wireless service designed for customers who prefer the flexibility and control offered by traditional prepaid services but who are seeking greater value for their dollar. We began an introductory launch of Cricket PAYGo in select markets in October 2008, and in April 2009 we expanded the availability of the service to make Cricket PAYGo available in all of our and our joint ventures Cricket markets. During 2009, we will continue to evaluate the potential of this new Cricket service to extend our reach in the prepaid wireless market and to capture new opportunities for our business.

We believe that our business model is scalable and can be expanded successfully into adjacent and new markets because we offer a differentiated service and an attractive value proposition to our customers at costs significantly lower than most of our competitors, and accordingly we continue to enhance our current market clusters and expand our business into new geographic markets. In addition to our current business expansion efforts, we may also pursue other activities to build our business, which could include (without limitation) the acquisition of additional spectrum through private transactions or FCC auctions, entering into partnerships with others to launch and operate additional markets or to reduce operating costs in existing markets, the acquisition of other wireless communications companies or complementary businesses or the deployment of next-generation network technology over the longer term. 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 Sub hold include large regional areas covering both rural and metropolitan communities, we and Denali may seek to partner with others, sell some of this spectrum or pursue alternative products or services to utilize or benefit from the spectrum not otherwise used for Cricket service.

Our customer activity is influenced by seasonal effects related to traditional retail selling periods and other factors that arise from our target customer base. Based on historical results, we generally expect new sales activity to be highest in the first and fourth quarters for markets in operation for one year or longer, and customer turnover, or churn, to be highest in the third quarter and lowest in the first quarter. In newly launched markets, we expect to initially experience a greater degree of customer turnover due to the number of customers new to Cricket service, but generally expect that churn will gradually improve as the average tenure of customers in such markets increases. Sales activity and churn, however, can be strongly affected by other factors, including, promotional activity, economic conditions and competitive actions, any of which may have the ability to reduce or outweigh certain seasonal effects or the relative amount of time a market has been in operation. From time to time, we offer programs to help promote customer activity for our wireless services. For example, since the second quarter of 2008 we have increased our use of a program which allows existing customers to activate an additional line of voice service on a previously activated Cricket handset not currently in service. Customers accepting this offer receive a free month of service on the additional line of service after paying an activation fee. We believe that this kind of program and other promotions provide important long-term benefits to us by extending the period of time over which customers use our handsets and wireless services.

Our principal sources of liquidity are our existing unrestricted cash, cash equivalents and short-term investments and cash generated from operations. From time to time, we may also generate additional liquidity through capital markets transactions. We also have a $200 million revolving credit facility under our senior secured credit agreement, or Credit Agreement, which was undrawn as of March 31, 2009, and which we do not generally rely upon as a source of liquidity in planning for our future capital and operating requirements. 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 and growth in customers, the impacts of which are reflected in our revenues and operating expenses. Throughout the last several years, we and our joint ventures have continued expanding existing market footprints and have launched additional 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 48.0 million covered POPs as of December 31, 2006, to approximately 53.2 million covered POPs as of December 31, 2007, to approximately 67.2 million covered POPs as of December 31, 2008 and to approximately 83.8 million covered POPs as of March 31, 2009. 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 2.86 million customers as of December 31, 2007, to 3.84 million customers as of December 31, 2008 and to 4.34 million customers as of March 31, 2009. In addition, our total revenues have increased from $957.8 million for fiscal 2005, to $1.17 billion for fiscal 2006, to $1.63 billion for fiscal 2007 and to $1.96 billion for fiscal 2008, and from $468.4 million for the three months ended March 31, 2008 to $587.0 million for the three months ended March 31, 2009.

As our business activities have expanded, our operating expenses have also grown, including increases in cost of service reflecting the increase in customers, the costs associated with the launch of new products and markets and the broader variety of products and services provided to our customers; increased depreciation expense related to our expanded networks; and increased selling and marketing expenses and general and administrative expenses generally attributable to expansion into new markets, 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, to $1.57 billion for fiscal 2007 and to $1.91 billion for fiscal 2008, and from $442.0 million for the three months ended March 31, 2008 to $591.6 million for the three months ended March 31, 2009. During this period, we also incurred substantial additional indebtedness to finance the costs of our business expansion and acquisitions of additional wireless licenses. As a result, our interest expense has increased from $30.1 million for fiscal 2005, to $61.3 million for fiscal 2006, to $121.2 million for fiscal 2007 and to $158.3 million for fiscal 2008 and from $33.4 million for the three months ended March 31, 2008 to $41.9 million for the three months ended March 31, 2009.

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 $24.7 million for fiscal 2006, a net loss of $75.2 million for fiscal 2007 and a net loss of $141.6 million for the year ended December 31, 2008, and our net loss of $16.9 million for the three months ended March 31, 2008 increased to a net loss of $47.4 million for the three months ended March 31, 2009. We believe, however, that the significant initial costs associated with building out and launching new markets and further expanding our existing business will provide substantial future benefits as the new markets we have launched continue to develop, our existing markets mature and we continue to add subscribers and generate additional revenues.

We expect that we will continue to build out and launch new markets and pursue other 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 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 will decrease 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.

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Results of Operations

Operating Items

The following table summarizes operating data for our consolidated operations for the three months ended March 31, 2009 and 2008 (in thousands, except percentages):

	Three Months Ended March 31, 2009	% of 2009 Service Revenues	2008	% of 2008 Service Revenues	Change from Prior Year Dollars	Percent
Revenues:						
Service revenues	$ 514,005		$ 398,929		$ 115,076	28.8%
Equipment revenues	72,982		69,455		3,527	5.1%
Total revenues	586,987		468,384		118,603	25.3%
Operating expenses:						
Cost of service	144,344	28.1%	111,170	27.9%	33,174	29.8%
Cost of equipment	157,796	30.7%	114,221	28.6%	43,575	38.1%
Selling and marketing	103,523	20.1%	58,100	14.6%	45,423	78.2%
General and administrative	96,177	18.7%	75,907	19.0%	20,270	26.7%
Depreciation and amortization	89,733	17.5%	82,639	20.7%	7,094	8.6%
Total operating expenses	591,573	115.1%	442,037	110.8%	149,536	33.8%
Gain (loss) on sale or disposal of assets	3,581	0.7%	(291)	(0.1)%	3,872	1,330.6%
Operating income (loss)	$ (1,005)	(0.2)%	$ 26,056	6.5%	$ (27,061)	(103.9)%

The following table summarizes customer activity for the three months ended March 31, 2009 and 2008:

For the Three Months Ended March 31(1):	**2009**	**2008**	**Change Amount**	**Percent**
Gross customer additions	889,911	550,520	339,391	61.6%
Net customer additions	492,753	230,062	262,691	114.2%
Weighted-average number of customers	4,058,819	2,956,477	1,102,342	37.3%
As of March 31:				
Total customers	4,337,426	3,093,581	1,243,845	40.2%

(1) We recognize a gross customer addition for each Cricket Wireless, Cricket Broadband and Cricket PAYGo line of service activated by a customer.

Three Months Ended March 31, 2009 Compared to Three Months Ended March 31, 2008

Service Revenues

Service revenues increased $115.1 million, or 28.8%, for the three months ended March 31, 2009 compared to the corresponding period of the prior year. This increase resulted from a 37.3% increase in average total customers due to new market launches, existing market customer growth and customer acceptance of our Cricket Broadband service. This increase was partially offset by a 6.2% decline in average monthly revenues per customer. The decline in average monthly revenues per customer primarily reflected customer acceptance of our Cricket Broadband and Cricket PAYGo services, which are generally priced lower than our most popular Cricket Wireless service plans.

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Equipment Revenues

Equipment revenues increased $3.5 million, or 5.1%, for the three months ended March 31, 2009 compared to the corresponding period of the prior year. A 44% increase in handset sales volume was offset by a reduction in the average revenue per handset sold. The reduction in the average revenue per handset sold was primarily due to the expansion of our low-cost handset offerings and various handset promotions offered to customers.

Cost of Service

Cost of service increased $33.2 million, or 29.8%, for the three months ended March 31, 2009 compared to the corresponding period of the prior year. The most significant factor contributing to the increase in cost of service was the increase in our fixed costs due to our newly launched markets and the resultant increase in our network footprint and supporting infrastructure. The number of potential customers covered by our networks increased from approximately 53.2 million covered POPs as of March 31, 2008 to approximately 83.8 million covered POPs as of March 31, 2009. As a percentage of service revenues, cost of service increased to 28.1% from 27.9% in the prior year period, primarily resulting from an increase in network operating costs as a percentage of service revenues due to the recent launch of our two largest markets.

Cost of Equipment

Cost of equipment increased $43.6 million, or 38.1%, for the three months ended March 31, 2009 compared to the corresponding period of the prior year. A 44% increase in handset sales volume was partially offset by a reduction in the average cost per handset sold, primarily due to the expansion of our low-cost handset offerings.

Selling and Marketing Expenses

Selling and marketing expenses increased $45.4 million, or 78.2%, for the three months ended March 31, 2009 compared to the corresponding period of the prior year. As a percentage of service revenues, such expenses increased to 20.1% from 14.6% in the prior year period. This percentage increase was largely attributable to a 3.7% increase in media and advertising costs as a percentage of service revenues reflecting our launch of a new advertising campaign, as well as advertising costs associated with the recent launch of our two largest markets, during the first quarter of 2009. In addition, there was a 1.9% increase in store and staffing costs as a percentage of service revenues due to two major market launches in the current period.

General and Administrative Expenses

General and administrative expenses increased $20.3 million, or 26.7%, for the three months ended March 31, 2009 compared to the corresponding period of the prior year. As a percentage of service revenues, such expenses decreased to 18.7% from 19.0% in the prior year period due to the increase in service revenues and consequent benefits of scale.

Depreciation and Amortization

Depreciation and amortization expense increased $7.1 million, or 8.6%, for the three months ended March 31, 2009 compared to the corresponding period of the prior year. The increase in depreciation and amortization expense was due primarily to an increase in property and equipment, net from approximately $1,389.9 million as of March 31, 2008 to approximately $1,956.6 million as of March 31, 2009, in connection with the build-out and launch of our new markets throughout 2008 and the three months ended March 31, 2009 and the improvement and expansion of our networks in existing markets. In addition, customer lists recorded during our emergence from bankruptcy were fully amortized by the end of 2008.

Gain (Loss) on Sale or Disposal of Assets

As more fully described below and in Note 7 to our condensed consolidated financial statements in Part I Item 1. Financial Statements included in this report, we completed the exchange of certain wireless spectrum with

MetroPCS Communications, Inc., or MetroPCS, during the three months ended March 31, 2009. We recognized a non-monetary net gain of approximately $4.4 million upon the closing of the transaction.

Non-Operating Items

The following table summarizes non-operating data for our consolidated operations for the three months ended March 31, 2009 and 2008 (in thousands):

	Three Months Ended March 31,		
	2009	**2008**	**Change**
Equity in net income (loss) of investee	1,479	(1,062)	2,541
Interest income	945	4,781	(3,836)
Interest expense	(41,851)	(33,357)	(8,494)
Other expense, net	(63)	(4,036)	3,973
Income tax expense	(6,865)	(9,278)	2,413

Three Months Ended March 31, 2009 Compared to Three Months Ended March 31, 2008

Equity in Net Income (Loss) of Investee

Equity in net income (loss) of investee reflects our share of net income (losses) in a regional wireless service provider in which we previously made investments.

Interest Income

Interest income decreased $3.8 million during the three months ended March 31, 2009 compared to the corresponding period of the prior year. This decrease was primarily attributable to a decline in interest rates from the corresponding period of the prior year. Currently, the majority of our portfolio consists of lower-yielding Treasury bills.

Interest Expense

Interest expense increased $8.5 million during the three months ended March 31, 2009 compared to the corresponding period of the prior year. The increase in interest expense resulted primarily from our issuance of $300 million of senior notes and $250 million of convertible senior notes in June 2008 and the increase in the interest rate applicable to our $895.5 million term loan under the amendment to our Credit Agreement in June 2008. We capitalized $12.2 million of interest during the three months ended March 31, 2009 compared to $13.0 million of capitalized interest 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 wireless 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. See Liquidity and Capital Resources below.

Other Expense, Net

Other expense, net decreased $4.0 million during the three months ended March 31, 2009 compared to the corresponding period of the prior year. During the first quarter of 2008, we recorded a $4.3 million impairment charge to reduce the carrying value of certain investments in asset-backed commercial paper; however, no such impairment charge was required during the first quarter of 2009.

Income Tax Expense

The computation of our annual effective tax rate 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 (discrete) items. Significant management judgment is required in projecting our ordinary income (loss). Our projected ordinary income tax expense for the full year 2009, which excludes the effect of discrete items,

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consists primarily of the deferred tax effect of the amortization of wireless licenses and tax goodwill for income tax purposes. Because our projected 2009 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, Accounting for Income Taxes in Interim Periods an interpretation of APB Opinion No. 28, we have calculated our provision for income taxes for the three months ended March 31, 2009 and 2008 based on the actual effective tax rate by applying the actual effective tax rate to the year-to-date income.

During the three months ended March 31, 2009, we recorded income tax expense of $6.9 million compared to income tax expense of $9.3 million for the three months ended March 31, 2008. The decrease in income tax expense during the three months ended March 31, 2009 related primarily to a decrease in our effective state income tax rate as a result of the enactment of the California Budget Act of 2008, which was signed into law on February 20, 2009, and which will permit taxpayers to elect an alternative method to attribute taxable income to California for tax years beginning on or after January 1, 2011. This decrease in our effective state income tax rate resulted in a decrease in our net deferred tax liability and a corresponding decrease in our income tax expense.

We expect that we will recognize income tax expense for the full year 2009 despite the fact that we have recorded a full valuation allowance on almost all of our deferred tax assets. This result is because of the deferred tax effect of the amortization of wireless licenses and tax basis goodwill for income tax purposes.

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, or NOL, 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. Included in our deferred tax assets at March 31, 2009 were federal NOL carryforwards of approximately $1,065.2 million (which will begin to expire in 2022) and state NOL carryforwards of approximately $1,103.2 million ($32.2 million of which will expire at the end of 2009), which could be used to offset future ordinary taxable income and reduce the amount of cash required to settle future tax liabilities. 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, we 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, except with respect to the realization of a $2.4 million Texas Margins Tax credit. We will continue to closely monitor the positive and negative factors to assess whether we are required to maintain a valuation allowance. At such time as we determine that it is more likely than not that all or a portion of the deferred tax assets are realizable, the valuation allowance will be reduced or released in its entirety, with the corresponding benefit reflected in our tax provision.

In accordance with SFAS 141(R), which was effective for us on January 1, 2009, any reduction in our valuation allowance, including the valuation allowance established in fresh-start reporting, will be accounted for as a reduction of income tax expense.

Subscriber Recognition and Disconnect Policies

We recognize a new customer as a gross addition in the month that he or she activates a Cricket service. We recognize a gross customer addition for each Cricket Wireless, Cricket Broadband and Cricket PAYGo line of service activated. The customer must pay his or her monthly service amount by the payment due date or his or her service will be suspended. Cricket Wireless customers, however, may elect to purchase our BridgePay service, which would entitle them to an additional seven days of service. When service is suspended, the customer is generally not able to make or receive calls or access the internet via our Cricket Broadband service, as applicable. Any call attempted by a suspended Cricket Wireless customer is routed directly to our customer service center in order to arrange payment. In order to re-establish Cricket Wireless or Cricket Broadband service, a customer must make all past-due payments and pay a reactivation charge, to re-establish service. For our Cricket Wireless and Cricket Broadband services, if a new customer does not pay all amounts due on his or her first bill within 30 days of the due date, the account is disconnected and deducted from gross customer additions during the month in which the customer s service was discontinued. If a Cricket Wireless or Cricket Broadband customer has made payment on his or her first bill and in a subsequent month does not pay all amounts due within 30 days of the due date, the account is disconnected and counted as churn. For Cricket Wireless customers who have elected to use BridgePay to receive an additional seven days of service, those customers must still pay all amounts otherwise due on their Cricket Wireless account within 30 days of the original due date or their account will also be disconnected and counted as churn. Pay-in-advance customers who ask to terminate their service are disconnected when their paid service period ends. Customers for our Cricket PAYGo service are generally disconnected from service and counted as churn if they have not replenished or topped up their account within 60 days after the end of their current term of service.

Customer turnover, frequently referred to as churn, is an important business metric in the telecommunications industry because it can have significant financial effects. Because we do not require customers to sign fixed-term contracts or pass a credit check, our service is available to a broader customer base than many other wireless providers and, as a result, some of our customers may be more likely to have their service terminated due to an inability to pay than the average industry customer.

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, or ARPU, which measures service revenue per customer; cost per gross customer addition, or CPGA, which measures the average cost of acquiring a new customer; cash costs per user per month, or 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, which are included in the most directly comparable measure calculated and presented in accordance with generally accepted accounting principles in the consolidated balance sheets, consolidated statements of operations or consolidated statements of cash flows; or (b) includes amounts, or is subject to adjustments that have the effect of including amounts, which 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 of our Cricket Wireless and Cricket Broadband service are generally disconnected from service approximately 30 days after failing to pay a monthly bill, and customers of our Cricket PAYGo service are generally disconnected from service if they have not replenished or topped up their account within 60 days after the end of their current term of service. 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 the 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 that 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 in which they are disconnected; as a result, these customers are not included in churn. Customers of our Cricket Wireless and Cricket Broadband service are generally disconnected from service approximately 30 days after failing to pay a monthly bill, and pay-in-advance customers who ask to terminate their service are disconnected when their paid service period ends. Customers for our Cricket PAYGo service are generally disconnected from service if they have not replenished or topped up their account within 60 days after the end of their current term of service. 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 March 31, 2009 and 2008:

	Three Months Ended March 31, 2009	Three Months Ended March 31, 2008
ARPU	$ 42.21	$ 44.98
CPGA	$ 195	$ 159

CCU	$ 20.03	$ 21.73
Churn	3.3%	3.6%

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.

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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 March 31, 2009	Three Months Ended March 31, 2008
Selling and marketing expense	$ 103,523	$ 58,100
Less share-based compensation expense included in selling and marketing expense	(1,583)	(1,356)
Plus cost of equipment	157,796	114,221
Less equipment revenue	(72,982)	(69,455)
Less net loss on equipment transactions unrelated to initial customer acquisition	(13,448)	(14,020)
Total costs used in the calculation of CPGA	$ 173,306	$ 87,490
Gross customer additions	889,911	550,520
CPGA	$ 195	$ 159

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 March 31, 2009	Three Months Ended March 31, 2008
Cost of service	$ 144,344	$ 111,170
Plus general and administrative expense	96,177	75,907
Less share-based compensation expense included in cost of service and general and administrative expense	(10,072)	(8,346)
Plus net loss on equipment transactions unrelated to initial customer acquisition	13,448	14,020
Total costs used in the calculation of CCU	$ 243,897	$ 192,751
Weighted-average number of customers	4,058,819	2,956,477
CCU	$ 20.03	$ 21.73

Liquidity and Capital Resources

Overview

Our principal sources of liquidity are our existing unrestricted cash, cash equivalents and short-term investments and cash generated from operations. We had a total of $488.1 million in unrestricted cash, cash equivalents and short-term investments as of March 31, 2009. We generated $100.0 million of net cash from operating activities during the three months ended March 31, 2009, 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. In addition, from time to time we may also generate liquidity through capital markets transactions. We also have a $200 million revolving credit facility which was undrawn as of March 31, 2009, and which we do not generally rely upon as a source of liquidity in planning for our future capital and operating requirements.

We believe that our existing unrestricted cash, cash equivalents and short-term investments, together with cash generated from operations, provide us with sufficient liquidity to meet the future operating and capital requirements for our current business operations and our current business expansion efforts. These current business expansion efforts, which are described further below, include our plans to expand our network footprint and to improve network coverage and capacity in many of our existing markets.

We determine our future capital and operating requirements and liquidity based, in large part, upon our projected financial and operating performance, and we regularly review and update these projections due to changes in general economic conditions, our current and projected financial and operating results, the competitive landscape and other factors. In evaluating our liquidity and managing our financial resources, we plan to maintain what we consider to be at least a reasonable surplus of unrestricted cash, cash equivalents and short-term investments to address variations in working capital, unanticipated operating or capital requirements, and significant changes in our financial and operating performance. If cash generated from operations were to be adversely impacted by substantial changes in our projected financial and operating performance (for example, as a result of unexpected effects associated with the current economic downturn, changes in general economic conditions, higher interest rates, increased competition in our markets, slower-than-anticipated growth or customer acceptance of our products or services, increased churn or other factors), we believe that we could manage our capital expenditures and other business expenses, to the extent we deemed necessary, to match our capital requirements to our available liquidity. Our projections regarding future capital and operating requirements and liquidity are based upon current operating, financial and competitive information and projections regarding our business and its financial performance. There are a number of risks and uncertainties (including the risks to our business described above and others set forth in this report in Part II Item 1A. under the heading entitled Risk Factors) that could cause our financial and operating results and capital requirements to differ materially from our projections and that could cause our liquidity to differ materially from the assessment set forth above.

We plan to expand our network footprint by launching Cricket service in new markets and improving coverage in our existing markets. We and Denali Operations intend to launch new markets covering approximately 25 million additional POPs by the middle of 2009 (measured on a cumulative basis beginning January 2009). As part of these expansion plans, during the three months ended March 31, 2009, we and Denali Operations launched new markets in Chicago and Philadelphia covering approximately 16.7 million additional POPs. In addition, we also previously identified up to approximately 16 million additional POPs that we could elect to cover with Cricket service in the next 18 to 24 months. We currently expect to make a determination with respect to any launch of these additional POPs by the middle of 2009. We intend to fund the costs required to build out and launch any new markets associated with these 16 million additional POPs with cash generated from operations. The pace and timing of any such build-out and launch activities will depend upon the performance of our business and our available cash resources.

In addition, we plan to continue to improve our network coverage and capacity in many of our existing markets, allowing us to offer our customers an improved service area. We have substantially completed the first phase of this program, which called for us to deploy approximately 600 new cell sites in our existing markets. In the second phase of this program, we plan to deploy up to an additional 600 cell sites in our existing markets by the end of 2010.

Our business operations and expansion efforts require significant expenditures. Our operating expenses for the year ended December 31, 2008 and for the three months ended March 31, 2009 were $1,912.0 million and $591.6 million, respectively. In addition, we and our consolidated joint ventures made approximately $795.7 million and $201.8 million in capital expenditures, including related capitalized interest costs, during the year ended December 31, 2008 and the three months ended March 31, 2009, respectively, primarily to support the launch of new markets, the expansion and improvement of our existing wireless networks and the deployment of EvDO technology. Capital expenditures for 2009, excluding capitalized interest costs, are expected to be between $625 million to $725 million, which include capital expenditures to support the launch of new markets, the on-going growth and development of markets that have been in commercial operation for one year or more and the further improvement of network coverage in our existing markets. As described above, we believe that our existing unrestricted cash, cash equivalents and short-term investments, together with cash generated from operations, provide us with sufficient liquidity to meet the future operating and capital requirements for our current business operations and our current business expansion efforts.

In addition to our current business expansion efforts described above, we may also pursue other activities to build our business, which could include (without limitation) the acquisition of additional spectrum through private transactions or FCC auctions, entering into partnerships with others to launch and operate additional markets or to reduce operating costs in existing markets, the acquisition of other wireless communications companies or complementary businesses or the deployment of next-generation network technology over the longer term. If we were to pursue any of these activities at a significant level, we would likely need to re-direct capital otherwise available for our current business operations and expansion efforts or raise additional funding. In addition, in order to enhance our liquidity and to provide us with additional flexibility to make acquisitions and pursue business opportunities, we may raise additional capital in the future. Any additional capital that we raise may be significant and could consist of debt, convertible debt or equity financing from public and/or private capital markets. We do not intend to pursue any of these other business expansion activities at a significant level unless we believe we have sufficient liquidity to support the operating and capital requirements for our current business operations, our current business expansion efforts and any such other activities.

To provide flexibility with respect to any future capital raising alternatives, we have filed a universal shelf registration statement with the SEC to register various debt, equity and other securities, including debt securities, common stock, preferred stock, depository shares, rights and warrants. The securities under this registration statement may be offered from time to time, separately or together, directly by us or through underwriters, at amounts, prices, interest rates and other terms to be determined at the time of any offering.

Our total outstanding indebtedness under our Credit Agreement was $875.3 million as of March 31, 2009. Outstanding term loan borrowings under our 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). The term loan under our Credit Agreement bears interest at the London Interbank Offered Rate, or LIBOR, plus 3.50% (subject to a LIBOR floor of 3.0% per annum) or the bank base rate plus 2.50%, as selected by us. The Credit Agreement also includes a $200 million revolving credit facility, which was undrawn as of March 31, 2009 and which expires in June 2011. In addition to our Credit Agreement, we also had $1,650 million in unsecured senior indebtedness outstanding as of March 31, 2009, which included $1,100 million of 9.375% senior notes due 2014, $250 million of 4.5% convertible senior notes due 2014 and $300 million of 10.0% senior notes due 2015.

The Credit Agreement and the indentures governing Cricket s senior notes contain covenants that restrict the ability of Leap, Cricket and the subsidiary guarantors to take certain actions, including incurring additional indebtedness beyond specified thresholds. In addition, under certain circumstances we are required to use some or all of the proceeds we receive from incurring indebtedness beyond defined levels to pay down outstanding borrowings under our Credit Agreement. Our Credit Agreement also contains financial covenants with respect to a maximum consolidated senior secured leverage ratio and, if a revolving credit loan or uncollateralized letter of credit is outstanding or requested, with respect to a minimum consolidated interest coverage ratio, a maximum consolidated leverage ratio and a minimum consolidated fixed charge coverage ratio. Based upon our current projected financial performance, we expect that we could borrow all or a substantial portion of the $200 million commitment available under the revolving credit facility until it expires in June 2011. If our financial and operating results were significantly less than what we currently project, the financial covenants in the Credit Agreement could restrict or prevent us from borrowing under the revolving credit facility for one or more quarters. However, as noted above, we do not generally rely upon the revolving credit facility as a source of liquidity in planning for our future capital and operating requirements.

Although our significant outstanding indebtedness results in certain risks to our business that could materially affect our financial condition and performance, we believe that these risks are manageable and that we are taking appropriate actions to monitor and address them. For example, in connection with our financial planning process and capital raising activities, we seek to maintain an appropriate balance between our debt and equity capitalization and we review our business plans and forecasts, including projected trends in interest rates, to monitor our ability to service our debt and to comply with the financial and other covenants in our Credit Agreement and the indentures governing Cricket s senior notes. In addition, as the new markets that we have launched over the past few years continue to develop and our existing markets mature, we expect that increased cash flows from such new and existing markets will ultimately result in improvements in our consolidated leverage ratio and the other ratios underlying our financial covenants. Our $1,650 million of senior notes and convertible senior notes bear interest at a fixed rate and we have entered into interest rate swap agreements covering $355 million of outstanding debt under our term loan. Due to the fixed rate on our senior notes and convertible senior notes and our interest rate swaps, approximately 78.5% of our total indebtedness accrues interest at a fixed rate. In light of the actions described above, our expected cash flows from operations, and our ability to manage our capital expenditures and other business expenses as necessary to match our capital requirements to our available liquidity, management believes that it has the ability to effectively manage our levels of indebtedness and address the risks to our business and financial condition related to our indebtedness.

Cash Flows

Operating Activities

Net cash provided by operating activities decreased $35.7 million, or 26.3%, for the three months ended March 31, 2009 compared to the corresponding period of the prior year. This decrease was primarily attributable to decreased operating income, exclusive of non-cash items such as depreciation and amortization, reflecting increased expenses associated with the launch of our two largest markets during the first quarter of 2009, our additional planned market launches in 2009 and our continued investments in our Cricket Broadband service.

Investing Activities

Net cash used in investing activities was $272.6 million during the three months ended March 31, 2009, which included the effects of the following transactions:

During the three months ended March 31, 2009, we and our consolidated joint ventures purchased $201.8 million of property and equipment for the build-out of our new markets and the expansion and improvement of our existing markets.

During the three months ended March 31, 2009, we made investment purchases of $234.6 million, offset by sales or maturities of investments of $165.9 million.

Financing Activities

Net cash used in financing activities was $3.1 million during the three months ended March 31, 2009, which included the effects of the following transactions:

During the three months ended March 31, 2009, we made payments of $2.3 million on our $895.5 million senior secured term loan and LCW Operations made a payment of $1.4 million on its $40 million senior secured term loans.

Senior Secured Credit Facilities

Cricket Communications

The senior secured credit facility under the Credit Agreement consists of a six-year $895.5 million term loan and a $200 million revolving credit facility. As of March 31, 2009, the outstanding indebtedness under the term loan was $875.3 million. Outstanding borrowings under the 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).

As of March 31, 2009, the interest rate on the term loan was LIBOR plus 3.50% (subject to a LIBOR floor of 3.0% per annum) or the bank base rate plus 2.50%, as selected by Cricket. At March 31, 2009, the effective interest rate on the term loan was 6.4%, including the effect of interest rate swaps. The terms of the Credit Agreement require us to enter into interest rate swap agreements in a sufficient amount so that at least 50% of our outstanding indebtedness for borrowed money bears interest at a fixed rate. We were in compliance with this requirement as of March 31, 2009. We have entered into interest rate swap agreements with respect to $355 million of our debt. These interest rate swap agreements effectively fix the LIBOR interest rate on $150 million of indebtedness at 8.3% and $105 million of indebtedness at 7.3% through June 2009 and $100 million of indebtedness at 8.0% through September 2010. The fair value of the swap agreements as of March 31, 2009 and December 31, 2008 were liabilities of $8.1 million and $11.0 million, respectively, which were recorded in other liabilities in the condensed consolidated balance sheets.

Outstanding borrowings under the revolving credit facility, to the extent that there are any borrowings, are due in June 2011. As of March 31, 2009, the revolving credit facility was undrawn; however, approximately $0.5 million of letters of credit were issued under the Credit Agreement and were considered as usage of the revolving credit facility, as more fully described in Note 9 to our condensed consolidated financial statements in Part I Item 1. Financial Statements included in this report. 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 our consolidated senior secured leverage ratio, and as of March 31, 2009 the rate was 0.25%. As of March 31, 2009, borrowings under the revolving credit facility would have accrued interest at LIBOR plus 3.25% (subject to the LIBOR floor of 3.0% per annum), or the bank base rate plus 2.25%, as selected by Cricket.

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, we are subject to certain limitations, including limitations on our 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, we will be required to pay down the facilities under certain circumstances if we issue debt, sell assets or property, receive certain extraordinary receipts or generate excess cash flow (as defined in the Credit Agreement). We are 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 or requested, with respect to a minimum consolidated interest coverage ratio, a maximum consolidated leverage ratio and a minimum consolidated fixed charge coverage ratio. In addition to investments in the Denali joint venture, the Credit Agreement allows us 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 us to provide limited guarantees for the benefit of Denali, LCW Wireless and other joint ventures. We were in compliance with these covenants as of March 31, 2009.

Based upon our current projected financial performance, we expect that we could borrow all or a substantial portion of the $200 million commitment available under the revolving credit facility until it expires in June 2011. If our financial and operating results were significantly less than what we currently project, the financial covenants in the Credit Agreement could restrict or prevent us from borrowing under the revolving credit facility for one or more quarters. However, we do not generally rely upon the revolving credit facility as a source of liquidity in planning for our future capital and operating requirements.

The Credit Agreement also prohibits the occurrence of a change of control, which includes the acquisition of beneficial ownership of 35% or more of Leap s equity securities, a change in a majority of the members of Leap s board of directors that is not approved by the board and the occurrence of a change of control under any of our other credit instruments.

LCW Operations

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 March 31, 2009, the effective interest rate on the term loans was 5.0%, and the outstanding indebtedness was $37.1 million. LCW Operations has 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 through October 2011. The obligations under the loans are guaranteed by LCW Wireless and LCW License (a wholly owned subsidiary of LCW Operations), and are non-recourse to Leap, Cricket and their other subsidiaries. The obligations under the loans are secured by substantially all of the present and future assets of LCW Wireless and its subsidiaries. Outstanding borrowings under the term loans must be repaid in varying quarterly installments, which commenced in June 2008, with an aggregate final payment of $24.1 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, with restrictions on the use of proceeds; make certain investments and acquisitions; grant liens; pay dividends; and make certain other restricted payments. In addition, LCW Operations will be

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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, or EBITDA, gross additions of subscribers, minimum cash and cash equivalents and maximum capital expenditures, among other things. LCW Operations was in compliance with these covenants as of March 31, 2009.

Senior Notes

Senior Notes Due 2014

In 2006, Cricket issued $750 million of 9.375% unsecured senior notes due 2014 in a private placement to institutional buyers, which were exchanged in 2007 for identical notes that had been registered with the SEC. In June 2007, Cricket issued an additional $350 million of 9.375% unsecured senior notes due 2014 in a private placement to institutional buyers at an issue price of 106% of the principal amount, which were exchanged in June 2008 for identical notes that had been registered with the SEC. These notes are all treated as a single class and have identical terms. The $21 million premium we received in connection with the issuance of the second tranche of notes has been recorded in long-term debt in the condensed consolidated financial statements and is being amortized as a reduction to interest expense over the term of the notes. At March 31, 2009, the effective interest rate on the $350 million of senior notes was 8.7%, which includes the effect of the premium amortization.

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.

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, if any, thereon to the redemption date. 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 any, thereon to the redemption date.

If a change of control occurs (which includes the acquisition of beneficial ownership of 35% or more of Leap s equity securities, a sale of all or substantially all of the assets of Leap and its restricted subsidiaries and a change in a majority of the members of Leap s board of directors that is not approved by the board), 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, if any, thereon to the repurchase date.

The indenture governing the notes limits, among other things, our ability to: incur additional debt; create liens or other encumbrances; place limitations on distributions from restricted subsidiaries; pay dividends; make

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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 our affiliates; and make acquisitions or merge or consolidate with another entity.

Convertible Senior Notes Due 2014

In June 2008, Leap issued $250 million of unsecured convertible senior notes due 2014 in a private placement to institutional buyers. The notes bear interest at the rate of 4.50% per year, payable semi-annually in cash in arrears, which interest payments commenced in January 2009. The notes are Leap s general unsecured obligations and rank equally in right of payment with all of Leap s existing and future senior unsecured indebtedness and senior in right of payment to all indebtedness that is contractually subordinated to the notes. The notes are structurally subordinated to the existing and future claims of Leap s subsidiaries creditors, including under the Credit Agreement and the senior notes described above and below. The notes are effectively junior to all of Leap s existing and future secured obligations, including under the Credit Agreement, to the extent of the value of the assets securing such obligations.

Holders may convert their notes into shares of Leap common stock at any time on or prior to the third scheduled trading day prior to the maturity date of the notes, July 15, 2014. If, at the time of conversion, the applicable stock price of Leap common stock is less than or equal to approximately $93.21 per share, the notes will be convertible into 10.7290 shares of Leap common stock per $1,000 principal amount of the notes (referred to as the base conversion rate), subject to adjustment upon the occurrence of certain events. If, at the time of conversion, the applicable stock price of Leap common stock exceeds approximately $93.21 per share, the conversion rate will be determined pursuant to a formula based on the base conversion rate and an incremental share factor of 8.3150 shares per $1,000 principal amount of the notes, subject to adjustment.

Leap may be required to repurchase all outstanding notes in cash at a repurchase price of 100% of the principal amount of the notes, plus accrued and unpaid interest, if any, thereon to the repurchase date if (1) any person acquires beneficial ownership, directly or indirectly, of shares of Leap s capital stock that would entitle the person to exercise 50% or more of the total voting power of all of Leap s capital stock entitled to vote in the election of directors, (2) Leap (i) merges or consolidates with or into any other person, another person merges with or in