Limelight Networks, Inc.
Form 10-K
March 01, 2013
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

(Mark One)

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2012

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.**
For the transition period from to

Commission file number 001-33508

Limelight Networks, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**20-1677033**
(State or other jurisdiction of	**(I.R.S. Employer**
incorporation or organization)	**Identification No.)**

222 South Mill Avenue, 8th Floor

Tempe, AZ 85281

(Address of principal executive offices, including Zip Code)

(602) 850-5000

(Registrant s telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	**Name of each exchange on which registered**
Common Stock, $0.001 par value	**NASDAQ Global Select Market**

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No þ

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes ¨ No þ

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 ¨

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 þ No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of the registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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.

Large accelerated filer ¨	Accelerated filer þ	Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller Reporting Company ¨

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

The aggregate market value of the voting and non-voting common stock held by non-affiliates of the registrant was approximately $169.1 million based on the last reported sale price of the common stock on the Nasdaq Global Select Market on June 30, 2012.

The number of shares outstanding of the registrant s Common Stock, par value $0.001 per share, as of February 20, 2013: 97,026,738 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the Registrant s 2013 Annual Meeting of Stockholders are incorporated by reference in Part III of this Form 10-K.

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LIMELIGHT NETWORKS, INC.

ANNUAL REPORT ON FORM 10-K

For the Fiscal Year Ended December 31, 2012

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This annual report on Form 10-K contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include, among other things, statements as to industry trends, our future expectations, operations, financial condition and prospects, business strategies and other matters that do not relate strictly to historical facts. These statements are often identified by the use of words such as may, will, expect, believe, anticipate, intend, could, estimate, or continue, and similar expressions or variations. These statements are based on the beliefs and assumptions of our management relying on information currently available to management. Such forward-looking statements are subject to risks, uncertainties and other factors that could cause actual results and the timing of certain events to differ materially from future results expressed or implied by such forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those identified below, and those discussed in the section titled Risk Factors set forth in Part I, Item 1A of this annual report on Form 10-K. Given these risks and uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements. We undertake no obligation to update any forward-looking statements to reflect events or circumstances after the date of such statements.

PART I

Item 1. *Business*

Overview

Limelight operates a globally distributed, high-performance computing platform (our global computing platform) and provides a suite of integrated services including content delivery, web and video content management, mobility, web application acceleration, cloud storage, and related consulting services that enable companies and other organizations to create, manage and deliver a global digital presence.

The integrated suite of services that we offer collectively comprises our Orchestrate Digital Presence Platform (Orchestrate, or the Orchestrate Platform). We provide the Orchestrate Platform as Software-as-a-Service (SaaS) and Infrastructure-as-a Service (IaaS), which other than content delivery services, are referred to collectively as value-added services (VAS). We offer VAS both collectively as the end-to-end Orchestrate Platform and individually for customers that may not be inclined or able to adopt the entire platform.

The Orchestrate Platform and services help our customers optimize and streamline their online digital presence across web, mobile, social and large screen channels. The Orchestrate Platform and services enable our customers to remove the complexity of creating, managing, delivering and optimizing their digital presence, which helps them to deliver a high quality online media experience, improve brand awareness, drive revenue and enhance their customer relationships. The Orchestrate Platform and services provide advanced features, which include website content management, personalization and targeting, video publishing, mobile enablement, content delivery, transcoding and cloud storage, combined with social media integration and reporting analytics. These services are provided through the cloud and leverage our global computing platform, which provides highly available, highly redundant storage, bandwidth and computing resources, as well as connectivity to last-mile broadband network providers. Our professional consulting services team helps organizations assess and optimize their digital presence strategies and activities through content management best practices, performance and delivery of online content, and video creation and publishing.

We derive revenue primarily from the sale of the Orchestrate Platform and its components as managed services. We also generate revenue through the sale of professional services and other infrastructure services, such as transit and rack space services. We provide our services to customers that we believe view Internet, mobile, and social initiatives as critical to their success, including traditional and emerging media companies operating in the television, music, radio, newspaper, magazine, movie, videogame, software, and social media industries, as well as to enterprises, technology companies, and government entities conducting business online.

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Our principal executive offices are located at 222 South Mill Avenue, 8th Floor, Tempe, Arizona 85281, and our main telephone number is (602) 850-5000. Our website address is www.limelightnetworks.com. We began development of our infrastructure in 2001 and began generating meaningful revenue in 2002. We began international operations in 2004. As of December 31, 2012, we had approximately 1,451 active customers and had a presence in approximately 67 countries throughout the world. As used herein, Limelight, we, us and our refer to Limelight Networks, Inc. and its subsidiaries, unless the context indicates otherwise.

Recent Developments of the Business

On November 26, 2012, we announced the appointment of Robert A. Lento as interim Chief Executive Officer effective immediately. We had previously announced on November 1, 2012 that Jeffrey W. Lunsford would be stepping down as our Chief Executive Officer in January 2013 and that an executive search firm was engaged to recruit his successor. On January 22, 2013, we announced that the Board of Directors (Board) completed its executive search and appointed Mr. Lento as our President and Chief Executive Officer and that Mr. Lunsford had tendered his resignation as a board member and Chairman of the Board. On February 12, 2013, we announced the appointment of George E. Vonderhaar as Chief Sales Officer and, we recently appointed Jonathan Smith as Managing Director and Vice President of Europe, Middle East and Africa. On February 19, 2013, we announced the appointment of Walter D. Amaral to serve as our non-executive Chairman of the Board. Mr. Amaral fills the Chairman role vacated by the resignation of Mr. Lunsford. We also announced the appointments of Charles Kirby Wadsworth as our Chief Marketing Officer on June 25, 2012 and Indu Kodukula as our Chief Operating Officer on October 29, 2012.

During 2012, we completed two previously announced stock repurchase plans and commenced a third. On September 12, 2011, our Board authorized and approved a repurchase plan that authorized us to purchase up to $25 million of our shares of common stock, exclusive of any commissions, markups or expenses, from time to time through March 12, 2012. During the period September 12, 2011 through March 12, 2012, we purchased and cancelled approximately 9.7 million shares of common stock for approximately $25.0 million ($25.2 million including commissions) under the initial repurchase plan.

On May 3, 2012, we announced a second common stock repurchase plan that authorized us to repurchase up to $15 million of our shares of common stock, exclusive of any commissions, markups or expenses, from time to time through December 15, 2012. During the year ended December 31, 2012, we purchased and cancelled approximately 5.7 million shares of common stock for approximately $15.0 million ($15.1 million including commissions) under the second repurchase plan. On October 29, 2012, our Board authorized and approved a third common stock repurchase plan that authorized us to repurchase up to $10 million of our shares of common stock, exclusive of any commissions, markups or expenses, from time to time through May 9, 2013. Any repurchased shares will be cancelled and return to authorized but unissued status. During the three months ended December 31, 2012, we purchased and cancelled approximately 2.2 million shares under the third repurchase plan for approximately $4.6 million (including commissions).

On August 31, 2012, the Court of Appeals for the Federal Circuit issued its opinion in our on-going patent litigation with Akamai Technologies, Inc. (Akamai). The Court of Appeals stated that the trial court correctly determined that we did not directly infringe Akamai s 6,108,703 patent and upheld the trial court s decision to vacate the original jury s damages award. The Court of Appeals also held that we did not infringe Akamai s 6,553,413 or 7,103,645 patents (the 413 and 645 patents, respectively). A slim majority in this three-way divided opinion also announced a revised legal theory of induced infringement, remanded the case to the trial court, and gave Akamai an opportunity for a new trial to attempt to prove that we induced our customers to infringe Akamai s patent under the Court of Appeals new legal standard. On December 28, 2012, we filed a petition for writ of certiorari to the United States Supreme Court to appeal this sharply divided Court of Appeals decision and sought to stay any proceedings at the trial court until the Supreme Court rules on that petition. Akamai then filed a cross petition for consideration of the Court of Appeals standard for direct infringement. Just as we have successfully shown that we do not directly infringe Akamai s patent, we firmly believe that we ultimately would be successful in showing we do not infringe Akamai s patent under the Court of Appeals

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majority s new induced infringement theory, and we will continue to vigorously defend against the allegation. We do not believe a loss is probable and therefore no provision for this lawsuit is recorded in our financial statements. For additional information, please see Legal Proceedings in Part I, Item 3 of this Annual Report on Form 10-K.

In May 2010, we made a strategic investment in Gaikai Inc., a private cloud-based gaming technology company (Gaikai). In August 2012, Sony Computer Entertainment Inc. (Sony) acquired Gaikai and we recorded a gain on sale of our cost basis investment in Gaikai of $9.4 million, which has been reflected in other income (expense) in the accompanying consolidated statements of operations for the year ended December 31, 2012. The carrying value of the Gaikai cost basis investment as of the sale date was approximately $2.0 million. The aggregate selling price was $11.4 million consisting of $10.2 million of cash received and $1.2 million held in escrow for a period of up to 15 months to cover any potential indemnification claims. As of December 31, 2012, we are not aware of any potential indemnification claims that are expected to reduce the amount received from escrow and have recorded a current receivable of $1.2 million, which is included in prepaid expenses and other current assets in the accompanying consolidated balance sheet for the year ended December 31, 2012.

We are registered as a reporting company under the Securities Exchange Act of 1934, as amended (Exchange Act). Accordingly, we file or furnish with the Securities and Exchange Commission, or the Commission, annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to such reports as required by the Exchange Act and the rules and regulations of the Commission. We refer to these reports as Periodic Reports. The public may read and copy any Periodic Reports or other materials we file with the Commission at the Commission s Public Reference Room at 100 F. Street, NE, Washington, DC 20549. Information on the operation of the Public Reference Room is available by calling 1-800-SEC-0330. In addition, the Commission maintains an Internet website that contains reports, proxy and information statements and other information regarding issuers, such as Limelight Networks, Inc., that file electronically with the Commission. The address of this website is http://www.sec.gov.

Our Internet website address is www.limelightnetworks.com. We make available, free of charge, on or through our Internet website our Periodic Reports and amendments to those Periodic Reports as soon as reasonably practicable after we electronically file them with the Commission. We are not, however, including the information contained on our website, or information that may be accessed through links on our website, as part of, or incorporating it by reference into, this annual report on Form 10-K.

Five Trends Driving Internet Traffic Growth

We believe there are five important trends driving a substantial need for business enterprises to manage their global online digital presence across web, mobile, social, and large screen channels to a wide variety of online, mobile and connected devices. We believe these trends are:

The evolution of digital marketing. As the global online economy has continued to expand and grow, it has become increasingly difficult for businesses to capture consumer attention. Because of this difficulty, we anticipate that marketing will continue to evolve from broadcast advertising and other marketing messages to engaging with users through conversations associated with content in a variety of places including websites and social networks. We believe this kind of engagement requires that content be dynamic, interactive, and provide rich analytics to assess and gauge the effectiveness of the engagement. To support this trend, we provide a web-based content management system that includes social network publishing and conversation management features. From a single web-based tool, businesses can create, launch, and manage multiple websites, publish new content, and remain actively engaged with users around specific content assets.

The continued growth of online video. Consumers are increasingly demanding and consuming, and publishers are increasingly making available for these consumers, video, music, and other forms of media over the Internet. In particular, we anticipate that consumer demand for online video will continue to grow rapidly. Because of this trend, we expect that businesses will continue to incorporate video into their digital marketing efforts as a way to further differentiate their message from competitors and generate new opportunities for engagement. Video consumption is also spreading to mobile devices. To support this trend, we offer video services that enable companies to manage and publish video both to their own website as well as popular third-party websites like YouTube. These services also automatically convert video to many popular mobile formats such as HLS (for Apple-based devices and others that support Apple s HLS standard), HDS (for Flash-enabled devices), and Smooth Streaming (for Microsoft-enabled devices) ensuring that the video is provided to end-users in a manner that supports the best possible playback experience at scale for high-performance, high-quality viewing experiences.

Mobile First. Mobile is becoming increasingly important as a primary method users interact with online content. Mobile devices enable consumers to remain connected and engaged with a marketer s story when they are away from their primary computers or TVs. But in order for those consumers to remain engaged, the experience must be consistent across devices. Marketers dynamic content and video has to be accessible regardless of device and make use of the same social engagement and interaction with which those users are comfortable on their desktop or laptop computers. To support this trend, we provide a variety of functions that offer mobile enablement and optimization, such as automatic rendering of websites into a mobile template, automatic conversion of video into different formats, live mobile video delivery, and advertisement integration into mobile video.

Cloud - The continued migration of IT services into the cloud. Enterprises may seek to decrease infrastructure expenditures by moving to a cloud-based model in which application delivery and storage are available on-demand and paid for on an as-needed basis. We anticipate that the core cloud computing market will continue to grow at a rapid pace as the cloud increasingly becomes a mainstream IT strategy embraced by corporate enterprises and government agencies. This core market includes platform-as-a-service (PaaS) and IaaS offerings, as well as the cloud-delivered software used to build and manage a cloud environment. We offer IaaS and SaaS applications built on that infrastructure that augment customers existing and new cloud network infrastructure.

Social - The rapid growth of use of social media. Consumers are increasingly using social media sites and solutions to communicate and share information. To engage consumers across social media channels, content needs to change constantly and be editable instantaneously by the author and, in some cases, a broader community. Likewise, the audience can interact with and republish social media content. The management of this type of content needs to be scalable, flexible, and fast enough to enable the content to be archived, indexed by search engines, and shared by users in many ways. Our services support this trend letting customers use built-in search engine optimization tools and promotional features to fine-tune marketing programs using blogs and social networking features to engage directly with consumers, and ensuring that dynamic content inherent in social media environments is delivered with a high degree of quality.

Requirements for Managing a Digital Presence

We believe that the challenges of managing and delivering a global digital presence, particularly related to rich media, dynamic content, and applications over the Internet to a wide variety of mobile and connected devices have created a new set of technical, management, and economic requirements for organizations seeking to succeed in the online economy. Our Orchestrate Platform helps content publishers, enterprises, and government entities achieve the following:

Reduction of IT involvement. Our cloud-based services relieve the burden of purchasing and maintaining hardware or software from our customers. Additionally, because our services all include web-based interfaces built using compliant technologies with many of today s most popular Web browsers, there is minimal direct IT-support required to enable adoption and usage by the entire company or organization, regardless of location.

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Business rules-based content delivery. Consumers increasingly expect the ability to consume any form of media content online. To meet this expectation, traditional media companies are making their enormous libraries of content, such as television shows and movies, available to be viewed online. Users expect a consistent media experience across every title in these large libraries, regardless of a title s popularity, each time it is viewed. But companies might have regulations with respect to where they can display that content. Our services include powerful features that enable organizations to dictate where content is stored, for how long, and in what regions it can be delivered.

Ability to scale capacity to handle rapidly accelerating demand. Online businesses must scale delivery of their web presence smoothly as the quantity of their site visitors or audience increases in order to avoid delays for users. When a large number of users simultaneously access a particular website, the operator must be able to meet that surge in demand without making users wait. Rapidly accelerating demand can be related to a single event, such as a breaking news story or seasonal shopping, or can be spread across an entire library of content, such as when a social media website surges in popularity.

Ability to easily publish and deliver online video. As the consumer demand for online video grows, businesses and organizations may be required to adopt video into their marketing messages or risk driving users away. But there are a host of complexities involved in developing and implementing a video publishing workflow. Our video related services include simple and easy methods to publish videos while also leveraging the power of the network to deliver video at scale with the highest performance possible. Additionally, video content can be converted automatically to any mobile device with the opportunity to integrate advertisements into on-demand assets.

Addressing mobile users. With the increasing popularity of smartphones and tablets, businesses and organizations may be required to ensure that their content, whether dynamic web pages or video, display properly in their mobile format. However, adding this requirement to existing content publishing workflows may greatly complicate internal processes that may result in delays for making content available to end users. Additionally, because many mobile devices have separate requirements, handling this requires specialized resources. Our services include features for delivering both web content and video automatically to mobile phones and solves this workflow challenge by automating the delivery of content as part of the existing publishing process.

Reliability. Throughout the path data must traverse to reach a user, and problems with the underlying infrastructure supporting the Internet can occur. For example, servers can crash or network connections can fail. Network, datacenter, or service provider outages can mean frustrated users, lost audiences, and missed revenue opportunities. Our network is a massively redundant network. Spread throughout the globe in over 80 physical locations, the delivery of digital presence assets (like web pages and video files) is always available.

Security. Maintaining effective security is a challenge for any enterprise that operates an Internet presence. Threats, such as attacks, viruses, and piracy can impact online web presence in many ways, including compromising personal and sensitive information, loss of customer trust and loyalty, loss of revenue, and negative publicity and brand reputation. Our services employ a number of software and network features to help mitigate the risk of unauthorized access to content and network-related attacks against web properties.

Engagement. The rapid growth of social media has radically impacted digital marketing by evolving traditional broadcasting of marketing messages to customers to engaging with customers through marketing messages. This engagement largely happens through social media networks like Facebook, Twitter, and other services because consumer behavior has shifted to make social networks one of their primary online activities. Our services include powerful social media integration enabling organizations and businesses to integrate customer engagement via social networks directly into their content, as well as a means to analyze the effectiveness of that engagement (i.e., by monitoring the number of shares, conversation threads, etc.).

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Personalization. The web continues to expand both horizontally (more businesses coming online) and vertically (more content within each subject or topic). This means that it is increasingly difficult for digital marketers to ensure that their message is reaching consumers and that consumer s return to that message, whether it is on a website, in a video, or part of a social network. In order to ensure that the message is received and returned, organizations and businesses are personalizing the content experience based on information about the consumer, such as browsing history (on their site), Facebook likes/shares (available via API), etc. Our services include powerful features that enable marketers to personalize the site to offer content and messaging that is more likely to appeal to specific consumers as well as gather browsing and other information to be used in that personalization.

Globalization. The development and implementation of regional websites is a strategic priority for enterprises as they look to build global brand awareness and drive revenue. Globalizing an organization s digital presence includes developing, deploying, localizing, and maintaining regionally specific sites with fresh content while ensuring brand consistency worldwide.

Our Services

Our integrated, feature-rich, suite of services and solutions are purpose-built to enable customers to build and manage their digital presence across Internet, mobile, and social channels. Our primary services include the following:

Content delivery services improve the reliability and performance of digital media and enterprise websites by using our global computing platform to deliver rich media files such as video, music, games, and software, or live streaming of corporate or entertainment events (we support all major formats including Adobe Flash, QuickTime, Windows Media, RealNetworks RealPlayer, WebM, and MP3 audio).

Video content management services help organizations publish, manage, syndicate, analyze, and monetize video content through a cloud-based service. Services here also include off-the-shelf players for quick deployment, a mobile application to capture video in the field, and monetization features that enable customers to integrate advertising into the video playback experience.

Mobile delivery services help publishers deliver properly-formatted, device-optimized video, and web content to almost any media-enabled mobile device as well as to present dynamic pre-, mid-, or post-roll video and audio advertising into media that is delivered to mobile or connected users. These mobility services automatically detect the requesting mobile device and provide a version of the content suitable to that device.

Web content management services enable content publishers to create, manage, and publish local and global websites through a cloud-based service, combining web content management, site marketing and personalization tools, and mobile publishing to help any organization be a sophisticated web publisher and marketer.

Web acceleration services improve web experiences by providing consistent performance from any geography for dynamic and personalized content, online commerce transactions, and web applications.

Cloud storage services provide customers with a scalable, redundant, geographically diverse storage of media and enterprise content offering policies for global geographic placement, content workflow, and business logic controls.

Professional services help customers assess their Digital Presence Management strategies and optimize their publishing, e-commerce, mobility, content distribution workflows, and provide best practice support for network architecture design, storage infrastructure, web application development, creative design, live event execution, and the design, deployment, and management of infrastructure.

- ***Reporting and analytics services*** help customers manage and configure how content is delivered and presented to online users. Together, our complete set of reporting and analytics services help online businesses increase efficiency, reduce expenses, improve end-user experience, and provide insight into performance of content delivery or web property. These services include features such as customer provisioning, custom control over delivery and storage options, custom reports, and Internet health monitor which provides insight into potential sources of end user experience issues.

Our evolution from a pure-play content delivery network (CDN) to a provider of integrated cloud-based software and services for Digital Presence Management is reflected in the increasing percentage of total revenue that our VAS represents. VAS represented approximately 32%, 26%, and 16% of our total revenue in 2012, 2011 and 2010 respectively.

Limelight Networks Global Computing Platform

Our global computing platform provides highly available, highly redundant storage, bandwidth, and computing resources in support of our services and solutions. This architecture, managed by our proprietary software, seamlessly and automatically responds to network and datacenter outages and disruptions. All of our delivery locations are interconnected via our global network and also connected to multiple Internet backbone and broadband Internet service provider (ISP) networks. Additionally, each location has redundant network equipment connectivity and server capacity, enabling us to continue serving content even if a network connection or server fails. Automatic failover and recovery not only provide uninterrupted customer service but also simplify network maintenance and upgrades. This platform has three main features:

- ***Densely configured, high-capacity.*** Our global computing platform infrastructure consists of dense clusters of specially configured servers organized into large, multi-tiered, logical delivery locations. The extensive storage capacity of these logical locations leads to fewer cache misses to our network of servers than we believe would occur in an early CDN architecture and provides significant scalability and responsiveness to surges in end-user demand. The clustering of many high-performance CPUs provide us with aggregated computational power.

- ***Many connections to other networks.*** Our logical locations are directly connected to hundreds of ISPs and other user access networks, which are computer networks connected to end-users. In addition, for dedicated connectivity between our logical locations, we operate a dedicated fiber optic backbone and metro area networks. Also, our infrastructure has multiple connections to the Internet. In combination, these connections enable us to frequently bypass the often-congested public Internet, improving the delivery speed of content and applications.

- ***Intelligent software to manage the network.*** We have developed proprietary software that manages our global computing platform. This software manages the delivery of content objects, the retrieval of dynamic content, storage and retrieval of objects, activity logging, and information reporting.

Segment and Geographic Information

We operate in one industry segment, providing content delivery and related services and solutions for global businesses to build and manage their digital presence across Internet, mobile, and social channels. We operate in three geographic areas North America, Europe, Middle East and Africa (EMEA) and Asia Pacific, including Japan. For the years ended December 31, 2012, 2011, and 2010, approximately 31%, 30%, and 27%, respectively, of our total revenue was derived from our operations outside North America. For the years ended December 31, 2012, 2011, and 2010, we derived approximately 47%, 50%, and 57%, respectively of our international revenue from EMEA and approximately 53%, 50%, and 43%, respectively, of our international revenue from Asia Pacific. We anticipate that our Asia Pacific revenue may continue to grow as a percentage of our total international revenue. During 2012, we had two countries, Japan and the United States that represented more than 10% of our total revenues. No single country outside of the United States accounted for 10% or more of our revenues during 2010 and 2011. For a description of risks attendant to our foreign operations, see the

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section titled Risk Factors set forth in Part 1, Item 1A of this annual report on Form 10-K. For more segment and geographic information, including revenue from customers, a measure of profit or loss, and total assets for each of the last three fiscal years, see our Consolidated Financial Statements included in this annual report on Form 10-K, including Note 22 thereto.

Sales, Service and Marketing

Our sales and service professionals are located in six offices in the United States with an additional 11 office locations in EMEA and Asia Pacific. We target media, high tech, software, gaming, enterprise and government agencies and other providers of online media content through:

Telesales. Our telesales force is responsible for qualifying demand, and managing direct sales opportunities within the small and mid-market.

Field sales. Our field sales force is responsible for managing direct sales opportunities in major accounts and channels.

Distribution partners. We maintain relationships with a selection of partners who embed our services or solutions into their offerings.

Resellers. Through our reseller relationships, we sell our services to reseller companies who have relationships with target customers in specific regions or markets.

Our sales and service organization includes employees in telesales and field sales, professional services, account management, and solutions engineering. As of December 31, 2012, we had approximately 178 employees in our sales and service organization. Our ability to achieve revenue growth in the future will depend in large part on whether we successfully recruit, train, and retain sufficient sales, technical, and global services personnel, and how well we establish and maintain our distribution and reseller relationships. We believe that the complexity of our services will continue to require highly trained global sales and services personnel.

To support our sales efforts and promote the Limelight brand, we conduct marketing programs. Our marketing strategies include an active public relations campaign, advertisements, events and trade shows, strategic alliances, and on-going customer communication programs. As of December 31, 2012, we had 12 employees in our global marketing organization.

Customers

Our customers operate in the media, entertainment, gaming, software, enterprise, and public sectors. As of December 31, 2012, we had approximately 1,451 active customers worldwide, including many widely recognized names in the fields of video, digital music, news media, games, rich media applications, and software delivery. During 2012, some of our most notable customers included Amazon, Bell Canada, QVC, Swiss Re, Electronic Arts, Ciena, NetApp, StarTribune, Middle East Broadcasting Company, NFL, Microsoft, Netflix, Nintendo Wii, Nissan, Sony PlayStation, ABC, BBC, NBC, Punjab Kesari Group, and Fasig Tipton.

During 2012 and 2011, we had one customer, Netflix who accounted for more than 10% of our revenue. For each of the years ended December 31, 2012 and 2011, Netflix represented approximately 11% of our total revenue. During 2010, we had no customer that accounted for more than 10% of our revenue. In the past, the customers that comprise our top 10 customers have continually changed, and our large customers may not continue to be as significant going forward as they have been in the past.

From time to time we have discontinued service to customers for non-payment. Although we did not receive continuing revenue from these former customers, these changes provided for a stronger mix of customers across our base, decreased our days sales outstanding (DSO), and allowed us to recoup network capacity to help meet future growth needs. We continue to focus on acquiring and retaining high quality customers across all market segments.

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Competition

We operate in the digital content management and delivery market, which is rapidly evolving and highly competitive. We expect this competitive environment to continue. We believe that the principal competitive factors affecting this market fall into three primary categories: management, delivery, and consumer engagement metrics.

Management for digital presence is measured by the features available for managing and publishing content that is part of a digital presence.

Delivery for digital presence is measured by scale and performance. We measure scale by the number of physical locations in the network and the capabilities for the network to absorb unplanned spikes in requests for content. We measure performance by file delivery time, end-user media consumption rates, quality of the end-user experience, and scalability, both in terms of average capacity and special event capacity. In addition, metrics around the ability to efficiently locate and deliver web content, the ease of implementation, the ability to customize systems for unique content types and mixes, reliability, security, and cost efficiency continue to be key criteria for this market.

Consumer engagement relating to digital content is measured by the ease of management and delivery of digital content across multiple channels and to multiple devices, the ability to conduct visitor tracking, lead capture and lead scoring, the enablement of business users to manage and publish digital content to reduce cost and strain on IT departments, increased website conversion rates, and the ability to quickly monetize digital assets.

The market for digital content management and delivery is increasingly complex and can require multiple vendors to provide customers with a complete set of tools and services to manage and deliver all of their digital content to all audiences as part of a global digital presence. We believe customers will increasingly look for a single vendor to help them manage their digital presence management needs in order to lower costs in relationship and administration management, reduce risk to their business, increase overall quality and speed of delivery, and improve and measure consumer engagement effectiveness.

We believe our integrated suite of services and solutions supported by our global computing platform compete effectively in digital content management and delivery and provide a competitive advantage in that our integrated suite coupled with our global computing platform help obviate the need for customers to seek and manage multiple vendors who provide multiple point solutions. We also believe the combination of cloud-based software (SaaS) and infrastructure/bandwidth associated with the physical network (IaaS) solve multiple challenges for IT departments by removing the need to install, manage, or provision software and hardware to satisfy the requirements for delivering a digital presence.

We believe our future success will depend on our ability to continue to enhance the performance, integration, and functionality of our existing suite of services and of our global computing platform, and on our ability to add additional services and functionality to meet the market s increasing expectations regarding digital content management and delivery and consumer engagement.

Research and Development

Our research and development organization is responsible for the design, development, testing, and certification of the software, hardware, and network architecture of our global computing platform and support of our content delivery and VAS solutions. As of December 31, 2012, we had 120 employees in our research and development group. Our research and development personnel are primarily located in Mountain View and San Francisco, California, Seattle, Washington, Tel Aviv, Israel, Lviv, Ukraine and at our headquarters in Tempe, Arizona. Our engineering efforts support product development across all of our service areas, as well as innovation related to the global computing platform itself. We test our services to ensure scalability in times of

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peak demand. We use internally-developed and third-party software to monitor and to improve the performance of our platform in the major Internet consumer markets around the world where we provide services for our customers. Our research and development expenses were approximately $20.2 million in 2012, $17.1 million in 2011, and $10.8 million in 2010, including stock-based compensation expense of approximately $2.7 million in 2012, $3.6 million in 2011, and $3.0 million in 2010. We believe that the investments that we have made in research and development have been effectively utilized. In 2013, we anticipate that our research and development expenditures will increase in absolute dollars and increase as a percentage of our revenue.

Intellectual Property

Our success depends in part upon our ability to protect our core technology and other intellectual capital. To accomplish this, we rely on a combination of intellectual property rights, including patents, trade secrets, copyrights, trademarks, domain registrations, and contractual protections.

As of December 31, 2012, we had received 52 patents in the United States, expiring between 2023 and 2032, the Patent and Trademark Office has allowed five more U.S. applications, and we have over 55 U.S. patent applications pending. We have 12 issued patents in Australia and one allowed in China. We do not know whether any of our patent applications will result in the issuance of a patent or whether the examination process will require us to narrow our claims. Any patents that may be issued to us may be contested, circumvented, found unenforceable or invalidated, and we may not be able to prevent third parties from infringing them. Therefore, we cannot predict the exact effect of having a patent with certainty.

As of December 31, 2012, we had received nine trademarks in the United States. Our name, Limelight Networks, has been filed for multiple classes in the United States, Australia, Canada, the European Union, India, Japan, South Korea and Singapore. We have seven pending trademark applications in foreign countries, and 22 non United States trademarks registered. There is a risk that pending trademark applications may not issue, and that those trademarks that have issued may be challenged by others who believe they have superior rights to the marks.

We generally control access to and use of our proprietary software and other confidential information through the use of internal and external controls, including physical and electronic security, contractual protections with employees, contractors, customers and partners, and domestic and foreign copyright laws.

Despite our efforts to protect our trade secrets and proprietary rights and other intellectual property rights by following sound business practices, licenses, and confidentiality agreements, there is risk that unauthorized parties may still copy or otherwise obtain and use our software and technology. In addition, we have been expanding our international operations, and effective patent, copyright, trademark, and trade secret protection may not be available or may be limited in foreign countries. Further, expansion of our business with additional employees, locations, and legal jurisdictions may create greater risk that our trade secrets and proprietary rights will be harmed. If we fail to effectively protect our intellectual property and other proprietary rights, our business could be harmed.

Third parties could claim that our products or technologies infringe their proprietary rights. The Internet content delivery services industry is characterized by the existence of a large number of patents, trademarks, and copyrights and by frequent litigation based on allegations of infringement or other violations of intellectual property rights. We expect that infringement claims may further increase as the number of products, services, and competitors in our market increases. Further, continued success in this market may provide an impetus to those who might use intellectual property litigation as a weapon against us.

As described under Legal Proceedings in Part 1, Item 3 of this annual report on Form 10-K, during 2012 we were party to a lawsuit alleging aspects of our content delivery network infringed upon third party patent rights. Initially at the trial court in Akamai Technologies, Inc. vs. Limelight Networks, Inc., a jury returned a verdict in February 2008 against us finding we infringed four claims of one patent at issue in that lawsuit, and awarded damages of approximately $45.5 million plus pre-judgment interest estimated to be $2.6 million. An additional provision of approximately $17.5 million for potential additional infringement damages and interest was recorded during the year ended December 31, 2008. We filed a renewed motion for judgment as a matter of law (JMOL), and on May 22, 2009, the court entered JMOL that we did not infringe Akamai s patent. Akamai appealed that judgment and on December 20, 2010 the Court of Appeals for the Federal Circuit issued its opinion affirming the trial court s entry of JMOL in our favor. On February 18, 2011, Akamai filed a motion with the Court of Appeals for the Federal Circuit seeking a rehearing and rehearing *en banc*. On April 21, 2011, the Court of Appeals for the Federal Circuit issued an order denying the petition for rehearing, granting the petition for rehearing *en banc*, vacating the December 20, 2010 opinion affirming the trial court s entry of judgment in our favor, and reinstated the appeal. On August 31, 2012, the Court of Appeals for the Federal Circuit issued its opinion in the case. The Court of Appeals stated that the trial court correctly determined we did not directly infringe Akamai s 703 patent and upheld the trial court s decision to vacate the original jury s damages award. The court also held that we did not infringe Akamai s 413 or 645 patents. A slim majority in this three-way divided opinion also announced a revised legal theory of induced infringement, remanded the case to the trial court, and gave Akamai an opportunity for a new trial to attempt to prove that we induced our customers to infringe Akamai s patent under the Court of Appeals new legal standard. On December 28, 2012, we filed a petition for writ of certiorari to the United States Supreme Court to appeal this sharply divided Court of Appeals decision and will seek to stay any proceedings at the trial court until the Supreme Court rules on that petition. Akamai then filed a cross petition for consideration of the Court of Appeals standard for direct infringement. We believe that the Court of Appeal s new induced infringement standard runs counter to the Patent Act and Supreme Court precedent, and it should be overturned by the Supreme Court. Additionally, just as we have successfully shown that we do not directly infringe Akamai s patent, we firmly believe that we ultimately would be successful in showing that we do not infringe Akamai s patent under the Court of Appeals majority s new induced infringement theory. We will continue to vigorously defend against the allegation; however, we cannot provide any assurance that the lawsuit ultimately will be resolved in our favor. An adverse ruling could seriously impact our ability to conduct significant portions of our business and to offer certain of our products and services to our customers. A permanent injunction could prevent us from operating our content delivery services or from delivering certain types of traffic, which could impact the viability of those portions of our business. Any adverse ruling, in turn, would harm our revenue, market share, reputation, liquidity and overall financial position. We are not able at this time to estimate the range of potential loss nor, in light of the status of the litigation, do we believe that a loss is probable. Therefore, we have made no provision for this lawsuit in our financial statements.

As we gain greater visibility and market exposure as a public company, we are likely to face an increased risk of being the subject of intellectual property infringement claims from other third parties.

Employees

As of December 31, 2012, we had 511 employees. Of these employees, 416 are based in North America, 68 are based in EMEA and 27 are based in Asia Pacific. None of our employees are represented by a labor union, and we have not experienced any work stoppages to date. We consider the relationships with our employees to be positive. Competition for technical personnel in the industry in which we compete is intense. We believe that our future success depends in part on our continued ability to hire, assimilate, and retain qualified personnel. To date, we believe that we have been successful in recruiting and retaining qualified employees, but there is no assurance that we will continue to be successful in the future.

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Executive Officers

Our executive officers and their ages and positions as of February 21, 2013 are as follows:

Name	Age	Position
Robert A. Lento	51	President, Chief Executive Officer and Director
Indu Kodukula	39	Chief Operating Officer
Douglas S. Lindroth	46	Senior Vice President, Chief Financial Officer and Treasurer
Philip C. Maynard	58	Senior Vice President, Chief Legal Officer and Secretary
Nathan F. Raciborski	46	Co-Founder, Chief Technology Officer and Director
Charles Kirby Wadsworth	56	Chief Marketing Officer
George E. Vonderhaar	52	Chief Sales Officer

Robert A. Lento has served as our Chief Executive Officer since November 2012 and has served as a member of our board of directors since January 2013. Prior to joining us, Mr. Lento was a senior sales executive at Convergys Corporation, a provider of customer management services, from July 1998 to May 2012, most recently serving as President Information Management Division from September 2007 to May 2012. Prior to that, from 1997 to 1998, Mr. Lento served as President of LAN Systems for Donnelly Enterprise Solutions, Inc., a provider of information management solutions. From 1989 to 1996, Mr. Lento served in leadership positions at ENTEX Information Services, Inc., a provider of computing infrastructure services. Mr. Lento received a B.S. in Management from the State University of New York.

Indu Kodukula has served as our Chief Operating Officer since October 2012. Prior to joining us, Mr. Kodukula served as Executive Vice President, Products and Chief Technology Officer for SunGard Availability Services, Inc., a provider of cloud computing services, from August 2009 to September 2012. Prior to that, from December 2005 to July 2009, Mr. Kodukula served as Vice President of Products, GM for Oracle Corporation s Service Delivery Platform division, a provider of network communications services. Prior to that, from 2001 to 2005, Mr. Kodukula served as Senior Director of Product Management for BEA Systems, Inc., a provider of enterprise application infrastructure solutions. Mr. Kodukula received a Ph.D. in Computer Science from Cornell University and a B. Tech. in Computer Science from the Indian Institute of Technology.

Douglas S. Lindroth has served as our Senior Vice President and Chief Financial Officer since October 2008 and Treasurer since January 2009. Prior to joining us, Mr. Lindroth served as a member of our board of directors since February 2008. Mr. Lindroth has also served as a General Partner of Bayview Investment Company, a real estate investment company, since November 2005. From April 2006 to May 2007, Mr. Lindroth served as Senior Vice-President and Chief Financial Officer of BakBone Software Incorporated, a developer and distributor of data backup, restoration, disaster recovery, replication and storage reporting software. From 1997 through February 2006, Mr. Lindroth served in various capacities for Memec Group Holdings Limited, a privately held company and a specialty semiconductor distributor, including as its Chief Financial Officer beginning in 2003. Mr. Lindroth formerly served on the board of directors of Visual Sciences, Inc. (formerly WebSideStory, Inc.) from May 2006 to January 2008 and BakBone Software Incorporated from May 2007 to January 2011. He is a Certified Public Accountant and received a B.A. in Business Administration from San Diego State University.

Philip C. Maynard has served as our Senior Vice President, Chief Legal Officer and Secretary since October 2007. From August 2004 to October 2006, Mr. Maynard served as Senior Vice President, Chief Legal Officer and Secretary of FileNet Corporation, a provider of data and content management software for managing and sharing information across corporate networks and the Internet, and as Associate General Counsel for IBM Corporation from October 2006 to October 2007, following IBM s acquisition of FileNet. From March 2004 to August 2004, Mr. Maynard served as Executive Vice President and Chief Legal Officer of SRS Labs, Inc., a leading provider of audio enhancement and integrated circuit solutions. From 2003 to 2004, Mr. Maynard was of counsel with the law firm of Stradling Yocca Carlson & Rauth in Newport Beach, California. From 2000 to 2002, Mr. Maynard served as Vice President & Division General Counsel for Invensys Software Systems, a

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division of Invensys, PLC, a UK-based engineering firm. From 1997 to 2000, Mr. Maynard was General Counsel for Wonderware Corporation, a leading developer of industrial automation software solutions, which was acquired by Invensys. Mr. Maynard received his J.D. (*magna cum laude*) from Loyola Law School in Los Angeles, California.

Nathan F. Raciborski co-founded Limelight Networks in 2001. He has been a Director since July 2006, served as Chief Technology Officer (CTO) through 2012 and currently holds the title of Founder. Mr. Raciborski is the inventor on over thirty patents related to the acceleration of Internet content, the scalability of Internet platforms, and the enhancement of content delivery to mobile devices. Starting in 1993, prior to co-founding Limelight, Mr. Raciborski founded numerous companies including Aerocast (acquired by Motorola), Entera (acquired by Blue Coat Systems, formerly Cacheflow) and Primenet Services for the Internet (merged with GlobalCenter, later acquired by Level3 formerly Frontier/Global Crossing).

Charles Kirby Wadsworth has served as our Chief Marketing Officer since June 2012. Prior to joining us, Mr. Wadsworth served as Vice President, Global Marketing for F5 Networks, Inc., a provider of cloud computing services, from July 2006 to May 2012. Prior to that, Mr. Wadsworth served as Senior Vice President, Marketing and Business Development for Acopia Networks, Inc., a provider of file virtualization services, from August 2002 to July 2006. Mr. Wadsworth received an M.B.A. from the Kellogg School of Management at Northwestern University and a B.S. in Information Systems from Northeastern University.

George E. Vonderhaar has served as our Chief Sales Officer since February 2013. Prior to joining us, Mr. Vonderhaar served in various capacities for Convergys Corporation, a provider of customer management services, from 1984 through 2012, including as Senior Vice President, General Manager Cable and Satellite from January 2011 until the division was acquired by NEC Corporation in May 2012, where Mr. Vonderhaar then served as Vice President, General Manager North America Cable from May 2012 to July 2012. Mr. Vonderhaar also was Senior Vice President Human Resources Management at Convergys Corporation from April 2006 through June 2010, when the Human Resources Outsourcing division was acquired by NorthgateArinso, where Mr. Vonderhaar then served as Vice President, Client Services and General Manager from June 2010 to December 2010. Mr. Vonderhaar also served as General Manager Mobile Cable Solutions Group at Convergys Corporation from November 2004 to April 2006. Mr. Vonderhaar received a B.S. in Business Administration from Marquette University.

Item 1A. *Risk Factors*

You should carefully consider the risks described below. These risks are not the only risks that we may face. Additional risks and uncertainties that we are unaware of, or that we currently deem immaterial, also may become important factors that affect us. If any of the following risks occurs, our business, financial condition or results of operations could be materially and adversely affected which could cause our actual operating results to differ materially from those indicated or suggested by forward-looking statements made in this annual report on Form 10-K or presented elsewhere by management from time to time.

Risks Related to Our Business

We currently face competition from established competitors and may face competition from others in the future.

We compete in markets that are intensely competitive, rapidly changing and characterized by constantly declining prices and vendors offering a wide range of content delivery solutions. We have experienced and expect to continue to experience increased competition, and particularly aggressive price competition. Mset.

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.

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.

Universal Service Fund, E-911 and other 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 has adopted the authoritative guidance for fair value measurements, which defines fair value for accounting purposes, establishes a framework for measuring fair value and expands disclosure requirements regarding fair value measurements. The guidance 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 the guidance for fair value measurements. See Note 5 for a further discussion regarding the Company s measurement of assets and liabilities at fair value.

The Company s adoption of the guidance for fair value measurements for its financial assets and liabilities did not have a material impact on its consolidated financial statements. Effective January 1, 2009, the Company adopted the guidance for fair value measurements for its non-financial assets and liabilities that are remeasured at fair value on a non-recurring basis. The adoption of the guidance 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, the guidance could have a material impact in future periods.

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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 components of construction-in-progress during the construction period to the extent time and expense are contributed to the construction effort. The Company also capitalizes certain telecommunications and other related costs as construction-in-progress during the construction period to the extent they are incremental and directly related to the network under construction. In addition, interest is capitalized on the carrying values of both wireless licenses and equipment during the construction period and is depreciated over an estimated useful life of ten years. During the three and nine months ended September 30, 2009, the Company capitalized interest of $1.3 million and $20.5 million, respectively, to property and equipment. During the three and nine months ended September 30, 2008, the Company capitalized interest of $12.5 million and $38.6 million, respectively, to property and equipment.

In accordance with the authoritative guidance for accounting for costs of computer software developed or obtained for internal use, certain costs related to the development of internal use software are capitalized and amortized over the estimated useful life of the software. During the three and nine months ended September 30, 2009, the Company capitalized internal use software costs of $23.3 million and $48.5 million, respectively, to property and equipment, and amortized internal use software costs of $5.3 million and $15.4 million, respectively. During the three and nine months ended September 30, 2008, the Company capitalized internal use software costs of $5.7 million and $14.6 million, respectively, to property and equipment, and amortized internal use software costs of $4.1 million and $12.6 million, 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 consolidated 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 would first test the wireless license for impairment and the wireless license would then be amortized prospectively over its estimated remaining useful life. In addition, on a quarterly basis, the Company evaluates the triggering event criteria outlined in the authoritative guidance for the impairment or disposal of long-lived assets, to determine whether events or changes in circumstances indicate that an impairment condition may exist. In addition to these quarterly evaluations, the Company also tests its wireless licenses for impairment in accordance with the authoritative guidance for goodwill and other intangible assets on an annual basis. As of September 30, 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 September 30, 2009 and December 31, 2008, wireless licenses with a carrying value of $4.0 million and $45.6 million, respectively, were classified as assets held for sale.

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 and nine months ended September 30, 2009, the Company and Denali incurred approximately $2.4 million and $7.1 million, respectively, in spectrum clearing costs. During the three and nine months ended September 30, 2008, the Company and Denali incurred approximately $2.0 million and $4.7 million, respectively, in spectrum clearing costs.

Goodwill and Other Intangible Assets

Goodwill primarily represents the excess of reorganization value over the fair value of identified tangible and intangible assets recorded in connection with fresh-start reporting as of July 31, 2004. Certain of the Company s other intangible assets were also recorded upon adoption of fresh-start reporting and now consist of trademarks which are being amortized on a straight-line basis over their estimated useful lives of fourteen years. Customer relationships acquired in connection with the Company s acquisition of Hargray Wireless, LLC (Hargray Wireless) in 2008 are amortized on an accelerated basis over a useful life of up to four years.

Impairment of Indefinite-Lived Intangible Assets

The Company assesses potential impairments to its indefinite-lived intangible assets, including wireless licenses and goodwill, on an annual basis or when there is evidence that events or changes in circumstances indicate that an impairment condition may exist. In addition, and as more fully described below, on a quarterly basis, the Company evaluates the triggering event criteria outlined in the authoritative guidance for goodwill and other intangible assets to determine whether events or changes in circumstances indicate that an impairment condition may exist. The annual impairment test is conducted during the third quarter of each year. Accordingly, the Company performed its annual impairment test during the three months ended September 30, 2009.

Wireless Licenses

The Company s wireless licenses in its operating markets are combined into a single unit of account for purposes of testing impairment because management believes that utilizing these wireless licenses as a group represents the highest and best use of the assets, and the value of the wireless licenses would not be significantly impacted by a sale of one or a portion of the wireless licenses, among other factors. The Company s non-operating licenses are tested for impairment on an individual basis. As of September 30, 2009, the carrying values of the Company s operating and non-operating wireless licenses were $1,889.3 million and $30.0 million, respectively. An impairment loss is recognized on the Company s operating wireless licenses when the aggregate fair value of the wireless licenses is less than their aggregate carrying value and is measured as the amount by which the licenses aggregate carrying value exceeds their aggregate fair value. An impairment loss is recognized on the Company s non-operating wireless licenses when the fair value of a wireless license is less than its carrying value and is measured as the amount by which the license s carrying value exceeds its fair value. Any required impairment loss is recorded as a reduction in the carrying value of the relevant wireless license and charged to results of operations. As a result of the annual impairment test of wireless licenses, the Company recorded an impairment charge of

$0.6 million during the three and nine months ended September 30, 2009 and an impairment charge of $0.2 million during the three and nine months ended September 30, 2008 to reduce the carrying values of certain non-operating wireless licenses to their estimated fair values. No impairment charges were recorded for the Company s operating wireless licenses as the aggregate fair values of these licenses exceeded the aggregate carrying value.

The valuation method the Company uses to determine the fair value of its wireless licenses is the market approach. Under this method, the Company determines fair value by comparing its wireless licenses to sales prices of other wireless licenses of similar size and type that have been recently sold through government auctions and private transactions. As part of this market-level analysis, the fair value of each wireless license is evaluated and adjusted for developments or changes in legal, regulatory and technical matters, and for demographic and economic factors, such as population size, composition, growth rate and density, household and disposable income, and composition and concentration of the market s workforce in industry sectors identified as wireless-centric (e.g., real estate, transportation, professional services, agribusiness, finance and insurance).

Goodwill

Management assesses the Company s goodwill for impairment at the reporting unit level by applying a fair value test. This fair value test involves a two-step process. The first step is to compare the book value of the Company s net assets to the Company s fair value. If the fair value is determined to be less than book value, a second step is performed to measure the amount of the impairment, if any.

The Company conducts its annual impairment testing during the third quarter of each year. In connection with this annual test, the Company bases its determination of fair value primarily upon the Company s average market capitalization for the month of August, plus an assumed control premium. Average market capitalization is calculated based upon the average number of shares of Leap common stock outstanding during such month and the average closing price of Leap common stock during such month. Management believes that it is preferable to determine market capitalization using an average calculated over a one-month period, rather than on a single day at the end of a period, to account for fluctuations in the trading price of Leap common stock. In addition, management considers the month of August to be an appropriate period over which to measure average market capitalization for purposes of the third quarter test because trading prices during the period reflect market reaction to the Company s most recently announced financial and operating results, typically announced early in the month of August. Moreover, measuring the average market capitalization over the month of August provides the Company with sufficient time to complete its impairment assessment and report the results in the Company s third quarter financial statements.

In conducting the annual impairment test during the third quarter of 2009, management applied an assumed control premium of 30% to the Company s average market capitalization. Management believes that consideration of an assumed control premium is customary in determining fair value, and the Company utilized an assumed control premium as contemplated by applicable accounting guidance. Management believes that its consideration of a control premium was appropriate because it believes that the Company s market capitalization does not fully capture the fair value of the Company s business as a whole or the additional amount an assumed purchaser would pay to obtain a controlling interest in the Company. Management determined the amount of the assumed control premium as part of its third quarter 2009 testing based upon its relevant transactional experience, a review of recent comparable telecommunications transactions and an assessment of market, economic and other factors. The actual amount of any control premium realized in any transaction involving the Company, however, could be higher or lower than the assumed control premium depending on the circumstances.

As of September 30, 2009, the carrying value of the Company s goodwill was $430.1 million. Based upon its annual impairment test conducted during the third quarter of 2009, management determined that no impairment condition existed. As of August 31, 2009, the book value of the Company s net assets was $1,758.5 million and the fair value of the Company, based upon its average market capitalization during the month of August and an assumed control premium of 30%, was $1,850.7 million.

Although the average closing price of Leap common stock for the month of September was higher than the average closing price for the month of August, since September 30, 2009, the competition in markets in which the Company operates has intensified and the trading price of Leap common stock has been highly volatile, declining significantly below the level the Company considered in performing its annual impairment test. Since

September 30, 2009, the closing price of Leap common stock has ranged from a high of $17.42 per share to a low of $13.03 per share, and the closing price of Leap common stock was $13.03 per share on November 5, 2009. If the trading price of Leap common stock were to continue to be adversely affected for a sustained period of time due to competition in the wireless telecommunications industry, significant changes in the Company s financial or operating performance, unfavorable economic conditions or other factors, this decline could constitute a triggering event which would require the Company to perform an interim goodwill impairment test prior to the Company s next annual impairment test during the third quarter of 2010 and possibly as soon as during the fourth quarter of 2009. If the first step of the interim impairment test were to indicate that a potential impairment existed, the Company would be required to perform the second step of the goodwill impairment test, which would require the Company to determine the fair value of its net assets and could require the Company to recognize a material non-cash impairment charge that could reduce all or a portion of the carrying value of its goodwill of $430.1 million.

Derivative Instruments and Hedging Activities

The Company historically entered into interest rate swap agreements with respect to the senior secured credit facilities under its former amended and restated credit agreement (the Credit Agreement). The Company entered 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 did not use derivative instruments for trading or other speculative purposes. In connection with its issuance of $1,100 million of senior secured notes due 2016 on June 5, 2009, the Company terminated the Credit Agreement and repaid all amounts outstanding thereunder and, in connection therewith, unwound its associated interest rate swap agreements, as more fully described in Note 6. Accordingly, the Company no longer held interest rate swaps as of September 30, 2009.

The Company recorded all derivatives in other assets or other liabilities on its condensed consolidated balance sheets at fair value. If the derivative was designated as a cash flow hedge and the hedging relationship qualified for hedge accounting, the effective portion of the change in fair value of the derivative was recorded in other comprehensive income (loss) and was recorded as interest expense when the hedged debt affected 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 were recognized in interest expense in the period of the change.

At inception of the hedge and quarterly thereafter, the Company performed a quantitative and qualitative assessment to determine whether changes in the fair values or cash flows of the derivatives were 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 indicated that the derivative was no longer highly effective as a hedge, the Company discontinued hedge accounting and recognized all subsequent derivative gains and losses in results of operations.

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 owns approximately 20% of the outstanding membership units, was $20.4 million and $17.4 million as of September 30, 2009 and December 31, 2008, respectively. During the three and nine months ended September 30, 2009, the Company s share of its equity method investee income was $1.0 million and $3.0 million, respectively. During the three months ended September 30, 2008, the Company s share of its equity method investee income was $0.2 million. During the nine months ended September 30, 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,

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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.

Concentrations

The Company generally relies on one key vendor for billing services, a limited number of vendors for handset logistics, a limited number of vendors for 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 carriers for a majority of its roaming needs. If the Company were unable to obtain cost-effective roaming services for its 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 the authoritative guidance for share-based payments. Under the guidance, 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 and nine months ended September 30, 2009 and 2008 was allocated to the condensed consolidated statements of operations as follows (in thousands, except per share data):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Cost of service	$ 865	$ 628	$ 2,510	$ 2,145
Selling and marketing expense	1,866	871	4,915	3,406
General and administrative expense	8,276	6,967	25,644	19,951
Share-based compensation expense	$ 11,007	$ 8,466	$ 33,069	$ 25,502
Share-based compensation expense per share:				
Basic	$ 0.15	$ 0.12	$ 0.46	$ 0.38
Diluted	$ 0.15	$ 0.12	$ 0.46	$ 0.38

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 Company s investments in joint ventures that are in a deferred tax liability position and 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 the authoritative guidance for accounting for income taxes in interim periods, the Company has computed its provision for income taxes for the three and nine months ended September 30, 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 as of September 30, 2009 were federal NOL carryforwards of approximately $1.4 billion (which will begin to expire in 2022) and state NOL carryforwards of approximately $1.4 billion ($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 and nine months ended September 30, 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 it 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 the authoritative guidance for business combinations, 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. In July 2009, the federal examination of the Company s 2005 tax year, which was limited in scope, was concluded and the results did not have a material impact on the consolidated financial statements.

Comprehensive Loss

Comprehensive loss consisted of the following (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	**2008**	**2009**	**2008**
Net loss	$ (65,407)	$ (47,270)	$ (173,950)	$ (88,812)

Other comprehensive loss:				
Net unrealized holding gains (losses) on investments, net of tax	(219)	(123)	389	683
Unrealized losses on interest rate swaps				(1,470)
Reclassification of losses included in earnings, including tax effect			6,119	
Comprehensive loss	$ (65,626)	$ (47,393)	$ (167,442)	$ (89,599)

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

	September 30, 2009	December 31, 2008
Net unrealized holding gains on investments, net of tax	$ 586	$ 197
Unrealized losses on interest rate swaps, net of tax and swaplet amortization		(6,119)
Accumulated other comprehensive income (loss)	$ 586	$ (5,922)

Recent Accounting Pronouncements

In June 2009, the FASB revised the authoritative guidance for the consolidation of variable interest entities, which will be effective for all variable interest entities and relationships with variable interest entities existing as of January 1, 2010. The revised authoritative guidance requires an enterprise to determine whether its variable interest or interests give it a controlling financial interest in a variable interest entity. The primary beneficiary of a variable interest entity is the enterprise that has both (1) the power to direct the activities of a variable interest entity that most significantly impact the entity s economic performance and (2) the obligation to absorb losses of the entity that could potentially be significant to the variable interest entity or the right to receive benefits from the entity that could potentially be significant to the variable interest entity. The revised guidance requires ongoing reassessments of whether an enterprise is the primary beneficiary of a variable interest entity. The Company is currently evaluating what impact, if any, the revised guidance will have on its consolidated financial statements.

In September 2009, the FASB revised the authoritative guidance for revenue arrangements with multiple deliverables, which will be effective for fiscal years beginning after June 15, 2010 and may be applied retrospectively or prospectively for new or materially modified arrangements. The revised guidance addresses how to determine whether an arrangement involving multiple deliverables contains more than one unit of accounting, and how the arrangement consideration should be allocated among the separate units of accounting. The revised guidance retains the criteria of the superseded guidance for when delivered items in a multiple-deliverable arrangement should be considered separate units of accounting, but eliminates the requirement that all undelivered elements must have objective and reliable evidence of fair value before a company can recognize the portion of the overall arrangement revenue that is attributable to items that already have been delivered. In addition, the revised guidance requires companies to allocate revenue in arrangements involving multiple deliverables based on the estimated selling price of each deliverable, even though the selling price of such deliverables may not be sold separately. As a result, the revised guidance may allow some companies to recognize revenue on transactions that involve multiple deliverables earlier than under the previous requirements. The Company is currently evaluating what impact, if any, the revised guidance will have on its consolidated financial statements.

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

	September 30, 2009	December 31, 2008
Other current assets:		
Accounts receivable, net(1)	$ 28,649	$ 31,177

Prepaid expenses		31,038		19,367
Other		2,390		1,404
	$	62,077	$	51,948
Property and equipment, net(2):				
Network equipment	$	2,626,509	$	1,911,173
Computer hardware and software		228,424		203,720
Construction-in-progress		297,936		574,773
Other		93,949		60,972
		3,246,818		2,750,638
Accumulated depreciation		(1,153,864)		(907,920)
	$	2,092,954	$	1,842,718

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	September 30, 2009	December 31, 2008
Intangible assets, net:		
Customer relationships	$ 7,347	$ 7,347
Trademarks	37,000	37,000
	44,347	44,347
Accumulated amortization customer relationships	(4,943)	(2,820)
Accumulated amortization trademarks	(13,655)	(11,673)
	$ 25,749	$ 29,854
Accounts payable and accrued liabilities:		
Trade accounts payable	$ 112,975	$ 201,843
Accrued payroll and related benefits	59,574	50,462
Other accrued liabilities	71,613	72,989
	$ 244,162	$ 325,294
Other current liabilities:		
Deferred service revenue(3)	$ 72,334	$ 62,998
Deferred equipment revenue(4)	25,545	20,614
Accrued sales, telecommunications, property and other taxes payable	33,964	32,799
Accrued interest	79,147	38,500
Other	6,973	7,091
	$ 217,963	$ 162,002

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

(2) As of September 30, 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 $3.7 million and $3.2 million as of September 30, 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 and nine months ended September 30, 2009 and 2008, 9.4 million common share equivalents were excluded in the computation of diluted earnings (loss) per share for each of the three and nine months ended September 30, 2009, and 8.8 million common share equivalents were excluded in the computation of diluted earnings (loss) per share for each of the three and nine months ended September 30, 2008, 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 the authoritative guidance for fair value measurements. 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

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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 September 30, 2009 or December 31, 2008.

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 September 30, 2009 and December 31, 2008 included its cash equivalents, its short-term investments in obligations of the U.S. government and government agencies, a majority of its short-term investments in commercial paper and, as of December 31, 2008, 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 September 30, 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 September 30, 2009 and December 31, 2008 (in thousands). As required by the guidance for fair value measurements, 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.

	At Fair Value as of September 30, 2009			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets:				
Cash equivalents	$	$ 177,649	$	$ 177,649
Short-term investments		388,798	2,350	391,148
Total	$	$ 566,447	$ 2,350	$ 568,797

	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)

Cash equivalents in the tables above are reported as a component of cash and cash equivalents on the condensed consolidated balance sheets.

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 September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Beginning balance	$ 2,550	$ 9,933	$ 1,250	$ 16,200
Total losses (realized/unrealized):				
Included in net loss	$	$ 1,162	$	$ (3,763)
Included in comprehensive loss	(200)	(933)	1,100	
Settlements		(5,062)		(7,337)
Transfers in (out) of Level 3				
Ending balance	$ 2,350	$ 5,100	$ 2,350	$ 5,100

The unrealized gains included in comprehensive loss in the table above are presented in accumulated other comprehensive income (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 September 30, 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 government agencies 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, primarily consisting of indicative bids from potential purchasers.

Interest Rate Swaps

As of December 31, 2008, the Company s interest rate swaps effectively fixed the London Interbank Offered Rate (LIBOR) interest rate (subject to a LIBOR floor of 3.0% per annum under the Credit Agreement) on a portion of its floating rate debt under the Credit Agreement. The fair value of the Company s interest rate swaps was primarily determined using LIBOR spreads, which are significant observable inputs that can be corroborated, and therefore such swaps were considered to be Level 2 items. The guidance for fair value measurements 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 was considered in the fair value measurement of the interest rate swaps.

As more fully described in Note 6, the Company repaid all amounts outstanding under its Credit Agreement on June 5, 2009 and, in connection therewith, unwound its associated interest rate swap agreements. As of September 30, 2009, the Company had no interest rate swap agreements.

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 $2,745.4 million and $2,201.2 million as of September 30, 2009 and December 31, 2008, respectively.

Note 6. Long-Term Debt

Long-term debt as of September 30, 2009 and December 31, 2008 was comprised of the following (in thousands):

	September 30, 2009	December 31, 2008
Term loans under senior secured credit facilities	$ 35,096	$ 916,000
Unamortized deferred lender fees		(4,527)
Unsecured senior notes due 2014 and 2015	1,400,000	1,400,000
Unamortized premium on $350 million unsecured senior notes due 2014	15,740	17,552
Senior secured notes due 2016	1,100,000	
Unamortized discount on $1,100 million senior secured notes due 2016	(41,057)	
Convertible senior notes due 2014	250,000	250,000
	2,759,779	2,579,025
Current maturities of long-term debt	(7,000)	(13,000)
	$ 2,752,779	$ 2,566,025

Senior Secured Credit Facilities

Cricket Communications

In connection with its issuance of $1,100 million of senior secured notes due 2016 on June 5, 2009, as more fully described below, the Company repaid all principal amounts outstanding under its Credit Agreement, which amounted to approximately $875.3 million, together with accrued interest and related expenses, a prepayment premium of $17.5 million and a payment of $8.5 million in connection with the unwinding of associated interest rate swap agreements. In connection with such repayment, the Company terminated the Credit Agreement and the $200 million revolving credit facility thereunder. As a result of the termination of the Company s Credit Agreement, it recognized a $26.3 million loss on extinguishment of debt during the nine months ended September 30, 2009, which was comprised of the $17.5 million prepayment premium, $7.5 million of unamortized debt issuance costs and $1.3 million of unamortized accumulated other comprehensive loss associated with the Company s interest rate swaps.

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 September 30, 2009, the effective interest rate on the term loans was 4.4%, and the outstanding indebtedness was $35.1 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 September 30, 2009.

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Senior Notes

Unsecured 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 Securities and Exchange Commission (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 September 30, 2009, the effective interest rate on the $350 million of senior notes was 9.0%, 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 senior secured notes described below, to the extent of the value of the assets securing such obligations, as well as to existing and 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, 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 beginning on November 1, 2010 and 2011, respectively, or at 100% of the principal amount if redeemed during the twelve months beginning on November 1, 2012 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 secured and unsecured 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 senior secured notes described below, 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 were not performed. 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, in June 2009 following the first anniversary of the issue date, the notes became eligible to be transferred without registration pursuant to Rule 144 without any volume or manner of sale restrictions, and on July 2, 2009, the restrictive transfer legends were removed from the notes. Accordingly, the Company has no further obligation to pay additional interest on the notes.

Unsecured 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 senior secured notes described below, to the extent of the value of the assets securing such obligations, as well as to existing and 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, 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 beginning on July 15, 2012 and 2013, respectively, or at 100% of the principal amount if redeemed during the twelve months beginning on July 15, 2014 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.

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 were not performed. 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, in June 2009 following the first anniversary of the issue date, the notes became eligible to be transferred without registration pursuant to Rule 144 without any volume or manner of sale restrictions, and on July 2, 2009 the restrictive transfer legends were removed from the notes. Accordingly, the Company has no further obligation to pay additional interest on the notes.

Senior Secured Notes Due 2016

On June 5, 2009, Cricket issued $1,100 million of 7.75% senior secured notes due 2016 in a private placement to institutional buyers at an issue price of 96.134% of the principal amount. The $42.5 million discount to the net proceeds the Company received in connection with the issuance of the notes has been recorded in long-term debt in the condensed consolidated financial statements and is being accreted as an increase to interest expense over the term of the notes. At September 30, 2009, the effective interest rate on the notes was 8.1%, which includes the effect of the discount accretion.

The notes bear interest at the rate of 7.75% per year, payable semi-annually in cash in arrears, which interest payments commence in November 2009. The notes are guaranteed on a senior secured basis by Leap and each of its direct and indirect existing domestic subsidiaries (other than Cricket, which is the issuer of the notes, and LCW Wireless and Denali and their respective subsidiaries) and any future wholly owned domestic restricted subsidiary that guarantees any indebtedness of Cricket or a guarantor of the notes. The notes and the guarantees are Leap s, Cricket s and the guarantors senior secured obligations and are equal in right of payment with all of Leap s, Cricket s and the guarantors existing and future unsubordinated indebtedness.

The notes and the guarantees are effectively senior to all of Leap s, Cricket s and the guarantors existing and future unsecured indebtedness (including Cricket s $1.4 billion aggregate principal amount of unsecured senior notes and, in the case of Leap, Leap s $250 million aggregate principal amount of convertible senior notes), as well as to all of Leap s, Cricket s and the guarantors obligations under any permitted junior lien debt that may be incurred in the future, in each case to the extent of the value of the collateral securing the senior secured notes and the guarantees.

The notes and the guarantees are secured on a *pari passu* basis with all of Leap s, Cricket s and the guarantors obligations under any permitted parity lien debt that may be incurred in the future. Leap, Cricket and the guarantors are permitted to incur debt under existing and future secured credit facilities in an aggregate principal amount outstanding (including the aggregate principal amount outstanding of the senior secured notes) of up to the greater of $1,500 million and 3.5 times Leap s consolidated cash flow (excluding the consolidated cash flow of LCW Wireless and Denali) for the prior four fiscal quarters through December 31, 2010, stepping down to 3.0 times such consolidated cash flow for any such debt incurred after December 31, 2010 but on or prior to December 31, 2011, and to 2.5 times such consolidated cash flow for any such debt incurred after December 31, 2011.

The notes and the guarantees are effectively junior to all of Leap s, Cricket s and the guarantors obligations under any permitted priority debt that may be incurred in the future (up to the lesser of 0.30 times Leap s consolidated cash flow (excluding the consolidated cash flow of LCW Wireless and Denali) for the prior four fiscal quarters and $300 million in aggregate principal amount outstanding), to the extent of the value of the collateral securing such permitted priority debt, as well as to existing and 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.

The notes and the guarantees are secured on a first-priority basis, equally and ratably with any future parity lien debt, by liens on substantially all of the present and future personal property of Leap, Cricket and the guarantors, except for certain excluded assets and subject to permitted liens (including liens on the collateral securing any future permitted priority debt).

Prior to May 15, 2012, Cricket may redeem up to 35% of the aggregate principal amount of the notes at a redemption price of 107.750% 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 May 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, and additional 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 May 15, 2012 plus (2) all remaining required interest payments due on such notes through May 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 May 15, 2012, at a redemption price of 105.813%, 103.875% and 101.938% of the principal amount thereof if redeemed during the twelve months beginning on May 15, 2012, 2013 and 2014, respectively, or at 100% of the principal amount if redeemed during the twelve months beginning on May 15, 2015 or thereafter, plus accrued and unpaid interest, and additional 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 (other than a transaction where immediately after such transaction Leap will be a wholly owned subsidiary of a person of which no person or group is the beneficial owner of 35% of more of such a person s voting stock), 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, and additional interest, if any, thereon to the repurchase date.

In connection with the private placement of the notes, the Company entered into a registration rights agreement with the purchasers in which the Company agreed to file a registration statement with the SEC to permit the holders to exchange or resell the notes. The Company must use reasonable best efforts to file such registration statement within 150 days after the issuance of the notes, have the registration statement declared effective within 270 days after the issuance of the notes and then consummate any exchange offer within 30 business days after the effective date of the registration statement. In the event that the registration statement is not filed or declared effective or the exchange offer is not consummated within these deadlines, the agreement provides that additional interest will accrue on the principal amount of the notes at a rate of 0.50% per annum during the 90-day period immediately following any of these events and will increase by 0.50% per annum at the end of each subsequent 90-day period, but in no event will the penalty rate exceed 1.50% per annum. There are no other alternative settlement methods and, other than the 1.50% per annum maximum penalty rate, the agreement contains no limit on the maximum potential amount of consideration that could be transferred in the event the Company does not meet the registration statement filing requirements. The Company filed a Registration Statement on Form S-4 with the SEC on October 15, 2009 pursuant to this registration rights agreement, and currently intends to have the registration statement declared effective and consummate the exchange offer within these time periods. Accordingly, the Company does not believe that payment of additional interest under the registration payment arrangement is probable.

Note 7. Significant Acquisitions and Dispositions

In March 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.

On June 19, 2009, the Company completed its purchase of certain wireless spectrum. Under the associated license purchase agreement, the Company acquired an additional 10 MHz of spectrum in St. Louis for $27.2 million.

Note 8. Common Stock Offering

On June 2, 2009, the Company completed the sale of an aggregate of 7,000,000 shares of Leap common stock in an underwritten public offering. In connection with the offering, the Company received net proceeds of approximately $263.7 million, which were recorded in additional paid-in capital in the Company s condensed consolidated balance sheet.

Note 9. Arrangements with Variable Interest Entities

The Company consolidates its interests in LCW Wireless and Denali in accordance with the authoritative guidance for the consolidation of variable interest entities because these entities are variable interest entities and the Company will absorb a majority of their expected losses. LCW Wireless, Denali and their respective subsidiaries are not guarantors of the Company s secured and unsecured senior notes, and the carrying amount and classification of their assets and liabilities is presented in Note 11. 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 the authoritative guidance for noncontrolling interests. The guidance changed the accounting treatment and classification with respect to certain ownership interests held by the Company in LCW Wireless and Denali. As a result of the adoption of the guidance, 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 the authoritative guidance for distinguishing liabilities from equity. The cumulative impact to the Company s condensed consolidated financial statements as a result of the adoption of the guidance for noncontrolling interests 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 the guidance for noncontrolling interests to all prior periods.

Arrangements with LCW Wireless

The membership interests in LCW Wireless are held as follows: Cricket holds a 70.7% non-controlling membership interest; CSM Wireless, LLC (CSM) holds a 23.9% non-controlling membership interest; WLPCS Management, LLC (WLPCS) holds a 1.9% controlling membership interest; and the remaining membership interests are held by employees of LCW Wireless. As of September 30, 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 membership 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 September 30, 2009 and December 31, 2008, this noncontrolling interest had a carrying value of $2.8 million and $2.6 million, respectively.

Under the LCW LLC Agreement, CSM also has the option, during specified periods, to put its entire membership 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 September 30, 2009 and December 31, 2008, this noncontrolling interest had a carrying value of $26.5 million and $26.0 million, respectively.

Effective as of August 31, 2009, CSM exercised this put right. Under the terms of the LCW LLC Agreement, the purchase price for the put will be calculated on a pro rata basis using the appraised value of LCW Wireless, subject to certain adjustments. In September 2009, each of CSM and Cricket appointed an appraiser to conduct an appraisal of LCW Wireless, which appraisals were completed in October 2009. As the two appraisals were not within 10% of one another, the two appointed appraisers are in the process of selecting a third appraiser as required under the LCW LLC Agreement, and the appraisal of this third appraiser will be deemed to be the enterprise value of LCW Wireless. The Company intends to satisfy the put price in cash and completion of this transaction is subject to customary closing conditions.

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.

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 September 30, 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 September 30, 2009 and December 31, 2008, this noncontrolling interest had a carrying value of $46.5 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 September 30, 2009, total borrowings under the license acquisition sub-facility totaled $223.4 million and total borrowings under the build-out sub-facility totaled $297.5 million. During January 2009, the build-out sub-facility was increased to a total of $394.5 million, approximately $97.0 million of which was unused as of September 30, 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.

Values of Redeemable Noncontrolling Interests

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

	Nine Months Ended September 30, 2009	2008
Beginning balance, January 1	$ 71,879	$ 61,868
Accretion of redeemable noncontrolling interests, before tax	3,913	6,572
Ending balance, September 30	$ 75,792	$ 68,440

Note 10. 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 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 agreed to enter into a license agreement which will provide Freedom Wireless with royalties on certain of the Company s products and services. Pursuant to the terms of the settlement, arbitration has been scheduled for December 15, 2009 to finalize the terms of the settlement and license agreements.

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 alleged that the sale and marketing by the Company of prepaid wireless cellular telephone services infringed these patents, and the complaint sought an injunction against further infringement, damages (including enhanced damages) and attorneys fees. In July 2009, the parties settled this matter.

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, unspecified damages (including enhanced damages) and attorneys fees. On July 23, 2009, the Company filed an answer to the complaint as well as counterclaims.

Digital Technology Licensing

On April 21, 2009, the Company and certain other wireless carriers (including Hargray Wireless, a company which Cricket acquired in April 2008 and which was merged with and into Cricket in December 2008) were sued by Digital Technology Licensing LLC (DTL) in the United States District Court for the Southern District of New York, for alleged infringement of U.S. Patent No. 5,051,799 entitled Digital Output Transducer. DTL alleges that the Company and Hargray Wireless sell and/or offer to sell Bluetooth® devices or digital cellular telephones, including Kyocera and Sanyo telephones, and that such acts constitute direct and/or indirect infringement of DTL s patent. DTL further alleges that the Company and Hargray Wireless directly and/or indirectly infringe its patent by providing cellular telephone service and by using and inducing others to use a patented digital cellular telephone system by using cellular telephones, Bluetooth devices, and cellular telephone infrastructure made by companies such as Kyocera and Sanyo. DTL alleges that the asserted infringement is willful, and the complaint seeks a permanent injunction against further infringement, unspecified damages (including enhanced damages), attorneys fees, and expenses. On August 14, 2009, the Company filed a motion to dismiss the complaint or, in the alternative, for a more definite statement.

On The Go

On July 9, 2009, the Company and certain other wireless carriers were sued by On The Go, LLC (OTG) in the United States District Court for the Northern District of Illinois, Eastern Division, for alleged infringement of U.S. Patent No. 7,430,554 entitled Method and System For Telephonically Selecting, Addressing, and Distributing Messages. OTG s complaint alleges that the Company directly and indirectly infringes OTG s patent by making, offering for sale, selling, providing, maintaining, and supporting the Company s PAYGo prepaid mobile telephone service and system. The complaint seeks injunctive relief and unspecified damages, including interest and costs. On October 8, 2009, the Company filed an answer to the complaint as well as counterclaims.

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.

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.

Although Leap is not a defendant in either the Whittington or AWG Lawsuits, several of the defendants have indemnification agreements with the Company. Insurers under the Company s directors and officers liability insurance policy for these matters asserted that the Company was required to contribute to the payment of litigation costs and to any damages or settlement costs, which the Company disputed. The AWG and Whittington Lawsuits were settled on October 29, 2009, and the matters have been dismissed.

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. One of the shareholder derivative lawsuits was filed in the California Superior Court for the County of San Diego on November 13, 2007 and the other shareholder derivative lawsuit was filed in the United States District Court for the Southern District of California on February 7, 2008. 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 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. On September 29, 2009, the district court granted Leap s motion to dismiss the derivative complaint for failure to plead that a presuit demand on Leap s board was excused. Based on a stipulated order, the plaintiff has until November 30, 2009 to file an amended 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 which consolidated several securities class action lawsuits initially filed between September 2007 and January 2008. 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 or any of Leap s outside directors. Leap and the remaining individual defendants have moved to dismiss the amended complaint.

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 (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.

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 require the non-governmental user to undergo involuntary relocation. The FCC rules also provide that a portion of the proceeds raised in Auction #66 are to be used to reimburse the costs of governmental users relocating from the AWS spectrum. Government agencies are required to relocate their systems and clear the AWS spectrum over a 12 to 72 month period, depending upon the agency. In the event that a government agency is unable to relocate its systems within the applicable timeline, the government agency will be required to accept interference from AWS carriers operating in the AWS spectrum.

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

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commitments, and to certain technical training for the Company s personnel. If the purchase commitment levels under 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 under 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 September 30, 2009 and December 31, 2008, the Company had approximately $10.2 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. The restricted cash collateralizing the letters of credit outstanding is reported in both restricted cash, cash equivalents and short-term investments and other long-term assets in the condensed consolidated balance sheets.

As of September 30, 2009 and December 31, 2008, the Company had approximately $5.2 million and $5.0 million, respectively, of surety bonds outstanding to guarantee the Company s performance with respect to certain of its contractual obligations.

Note 11. Guarantor Financial Information

Of the $2,500 million of senior notes issued by Cricket (the Issuing Subsidiary), $1,100 million comprise unsecured senior notes due 2014, $300 million comprise unsecured senior notes due 2015 and $1,100 million comprise senior secured notes due 2016. The notes are jointly and severally guaranteed on a full and unconditional basis by Leap (the Guarantor Parent Company) and each of Cricket s existing direct and indirect wholly owned subsidiaries, including subsidiaries that hold wireless licenses (collectively, the Guarantor Subsidiaries).

The indentures governing these notes limit, among other things, the Guarantor Parent Company 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 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 September 30, 2009 and December 31, 2008 and for the three and nine months ended September 30, 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 September 30, 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	$ 38	$ 194,218	$	$ 28,705	$	$ 222,961
Short-term investments		388,798		2,350		391,148
Restricted cash, cash equivalents and short-term investments	1,613	1,625		10		3,248
Inventories		84,568		3,812		88,380
Deferred charges		36,238				36,238
Other current assets	133	57,805		4,165	(26)	62,077
Total current assets	1,784	763,252		39,042	(26)	804,052
Property and equipment, net	2	1,815,945		277,007		2,092,954
Investments in and advances to affiliates and consolidated subsidiaries	2,006,542	2,301,566	150,321	9,127	(4,467,556)	
Wireless licenses		7,889	1,577,450	333,955		1,919,294
Assets held for sale			4,015			4,015
Goodwill		430,101				430,101
Intangible assets, net		25,749				25,749
Other assets	7,161	83,026		2,691		92,878
Total assets	$ 2,015,489	$ 5,427,528	$ 1,731,786	$ 661,822	$ (4,467,582)	$ 5,369,043
Liabilities and Stockholders Equity						
Accounts payable and accrued liabilities	$ 143	$ 236,342	$	$ 7,677	$	$ 244,162
Current maturities of long-term debt				7,000		7,000
Intercompany payables	22,773	407,067		16,432	(446,272)	
Other current liabilities	2,303	199,937		15,749	(26)	217,963
Total current liabilities	25,219	843,346		46,858	(446,298)	469,125
Long-term debt	250,000	2,474,684		701,707	(673,612)	2,752,779
Deferred tax liabilities		242,463				242,463
Other long-term liabilities		78,836		9,778		88,614

Total liabilities	275,219	3,639,329		758,343	(1,119,910)	3,552,981
Redeemable noncontrolling interests		29,278		46,514		75,792
Stockholders equity (deficit)	1,740,270	1,758,921	1,731,786	(143,035)	(3,347,672)	1,740,270
Total liabilities and stockholders equity	$ 2,015,489	$ 5,427,528	$ 1,731,786	$ 661,822	$ (4,467,582)	$ 5,369,043

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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		97,512		1,574		99,086
Deferred charges		27,207				27,207
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	1,586,346		256,370		1,842,718
Investments in and advances to affiliates and consolidated subsidiaries	1,892,457	2,172,085	81,793	9,227	(4,155,562)	
Wireless licenses		7,889	1,501,632	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	$ 1,902,223	$ 5,047,484	$ 1,628,994	$ 630,830	$ (4,156,674)	$ 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	33,714	346,049		23,687	(403,450)	
Other current liabilities	5,813	150,919		6,382	(1,112)	162,002
Total current liabilities	39,547	803,429		61,882	(404,562)	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	289,547	3,381,446		591,378	(894,069)	3,368,302
Redeemable noncontrolling interests		28,610		43,269		71,879
Stockholders equity (deficit)	1,612,676	1,637,428	1,628,994	(3,817)	(3,262,605)	1,612,676
Total liabilities and stockholders equity	$ 1,902,223	$ 5,047,484	$ 1,628,994	$ 630,830	$ (4,156,674)	$ 5,052,857

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Condensed Consolidating Statement of Operations for the Three Months Ended September 30, 2009 (unaudited and in thousands):

	Guarantor Parent Company	Issuing Subsidiary	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating and Eliminating Adjustments	Consolidated
Revenues:						
Service revenues	$	$ 500,430	$	$ 40,822	$ 16	$ 541,268
Equipment revenues		52,973		5,227		58,200
Other revenues		2,404	22,194	418	(25,016)	
Total revenues		555,807	22,194	46,467	(25,000)	599,468
Operating expenses:						
Cost of service (exclusive of items shown separately below)		161,686		17,616	(22,595)	156,707
Cost of equipment		117,119		16,383		133,502
Selling and marketing		93,843		17,859		111,702
General and administrative	871	76,682	27	11,902	(2,405)	87,077
Depreciation and amortization		95,839		12,037		107,876
Impairment of assets			639			639
Total operating expenses	871	545,169	666	75,797	(25,000)	597,503
Gain (loss) on sale or disposal of assets		(5,013)	4,426	(4)		(591)
Operating income (loss)	(871)	5,625	25,954	(29,334)		1,374
Equity in net loss of consolidated subsidiaries	(66,670)	(25,321)			91,991	
Equity in net income of investee		996				996
Interest income	6,062	23,277		405	(29,017)	727
Interest expense	(3,094)	(63,815)		(23,136)	30,916	(59,129)
Other expense, net		(17)				(17)
Income (loss) before income taxes	(64,573)	(59,255)	25,954	(52,065)	93,890	(56,049)
Income tax expense		(9,358)				(9,358)
Net income (loss)	(64,573)	(68,613)	25,954	(52,065)	93,890	(65,407)
Accretion of redeemable noncontrolling interests, net of tax		1,943		(1,109)		834

Net income (loss) attributable to common stockholders	$	(64,573)	$	(66,670)	$	25,954	$	(53,174)	$	93,890	$	(64,573)

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Condensed Consolidating Statement of Operations for the Nine Months Ended September 30, 2009 (unaudited and in thousands):

	Guarantor Parent Company	Issuing Subsidiary	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating and Eliminating Adjustments	Consolidated
Revenues:						
Service revenues	$	$ 1,506,487	$	$ 90,345	$ 26	$ 1,596,858
Equipment revenues		172,743		14,262		187,005
Other revenues		4,514	66,533	1,084	(72,131)	
Total revenues		1,683,744	66,533	105,691	(72,105)	1,783,863
Operating expenses:						
Cost of service (exclusive of items shown separately below)		486,903		36,213	(67,498)	455,618
Cost of equipment		368,975		50,098		419,073
Selling and marketing		275,873		36,040		311,913
General and administrative	2,813	244,774	308	30,904	(4,607)	274,192
Depreciation and amortization		266,459		30,771		297,230
Impairment of assets			639			639
Total operating expenses	2,813	1,642,984	947	184,026	(72,105)	1,758,665
Gain (loss) on sale or disposal of assets		(2,881)	4,426	(109)		1,436
Operating income (loss)	(2,813)	37,879	70,012	(78,444)		26,634
Equity in net loss of consolidated subsidiaries	(183,723)	(69,096)			252,819	
Equity in net income of investee		2,990				2,990
Interest income	18,189	63,347		2,130	(81,352)	2,314
Interest expense	(9,273)	(162,571)		(59,548)	81,352	(150,040)
Other expense, net		(126)				(126)
Loss on extinguishment of debt		(26,310)				(26,310)
Income (loss) before income taxes	(177,620)	(153,887)	70,012	(135,862)	252,819	(144,538)
Income tax expense		(29,412)				(29,412)
Net income (loss)	(177,620)	(183,299)	70,012	(135,862)	252,819	(173,950)

Accretion of redeemable noncontrolling interests, net of tax		(424)		(3,246)		(3,670)
Net income (loss) attributable to common stockholders	$ (177,620)	$ (183,723)	$ 70,012	$ (139,108)	$ 252,819	$ (177,620)

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Condensed Consolidating Statement of Operations for the Three Months Ended September 30, 2008 (unaudited and in thousands):

	Guarantor Parent Company	Issuing Subsidiary	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating and Eliminating Adjustments	Consolidated
Revenues:						
Service revenues	$	$ 421,635	$	$ 12,907	$ (19)	$ 434,523
Equipment revenues		61,080		1,094		62,174
Other revenues			18,444		(18,444)	
Total revenues		482,715	18,444	14,001	(18,463)	496,697
Operating expenses:						
Cost of service (exclusive of items shown separately below)		137,129		10,941	(18,362)	129,708
Cost of equipment		110,479		2,578		113,057
Selling and marketing		70,134		7,273		77,407
General and administrative	1,105	79,118	223	7,177	(101)	87,522
Depreciation and amortization	5	83,798		2,230		86,033
Impairment of assets			177			177
Total operating expenses	1,110	480,658	400	30,199	(18,463)	493,904
Loss on sale or disposal of assets		(402)				(402)
Operating income (loss)	(1,110)	1,655	18,044	(16,198)		2,391
Equity in net loss of consolidated subsidiaries	(51,137)	(15,345)			66,482	
Equity in net income of investee		230				230
Interest income	6,067	16,020		876	(18,891)	4,072
Interest expense	(3,082)	(51,489)		(7,844)	17,063	(45,352)
Other income, net		1,115				1,115
Income (loss) before income taxes	(49,262)	(47,814)	18,044	(23,166)	64,654	(37,544)
Income tax expense		(2,335)	(7,391)			(9,726)
Net income (loss)	(49,262)	(50,149)	10,653	(23,166)	64,654	(47,270)
Accretion of redeemable noncontrolling interests, net of tax		(988)		(1,004)		(1,992)

Net income (loss) attributable to common stockholders	$ (49,262)	$ (51,137)	$ 10,653	$ (24,170)	$ 64,654	$ (49,262)

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Condensed Consolidating Statement of Operations for the Nine Months Ended September 30, 2008 (unaudited and in thousands):

	Guarantor Parent Company	Issuing Subsidiary	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating and Eliminating Adjustments	Consolidated
Revenues:						
Service revenues	$	$ 1,213,172	$	$ 37,461	$ (38)	$ 1,250,595
Equipment revenues		186,149		3,195		189,344
Other revenues			53,376		(53,376)	
Total revenues		1,399,321	53,376	40,656	(53,414)	1,439,939
Operating expenses:						
Cost of service (exclusive of items shown separately below)		387,937		24,904	(53,106)	359,735
Cost of equipment		324,715		7,690		332,405
Selling and marketing		195,831		13,952		209,783
General and administrative	3,926	219,440	682	16,922	(308)	240,662
Depreciation and amortization	24	248,348		6,467		254,839
Impairment of assets			177			177
Total operating expenses	3,950	1,376,271	859	69,935	(53,414)	1,397,601
Gain (loss) on sale or disposal of assets		(715)	1,274			559
Operating income (loss)	(3,950)	22,335	53,791	(29,279)		42,897
Equity in net loss of consolidated subsidiaries	(94,249)	(22,465)			116,714	
Equity in net loss of investee		(1,127)				(1,127)
Interest income	6,483	43,788		2,032	(40,864)	11,439
Interest expense	(3,288)	(121,175)		(24,405)	39,758	(109,110)
Other income (expense), net	367	(3,595)				(3,228)
Income (loss) before income taxes	(94,637)	(82,239)	53,791	(51,652)	115,608	(59,129)
Income tax expense		(9,123)	(20,560)			(29,683)
Net income (loss)	(94,637)	(91,362)	33,231	(51,652)	115,608	(88,812)
		(2,887)		(2,938)		(5,825)

Accretion of redeemable noncontrolling interests, net of tax						
Net income (loss) attributable to common stockholders	$ (94,637)	$ (94,249)	$ 33,231	$ (54,590)	$ 115,608	$ (94,637)

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Condensed Consolidating Statement of Cash Flows for the Nine Months Ended September 30, 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	$ 11	$ 265,465	$	$ (70,523)	$ (128)	$ 194,825
Investing activities:						
Purchases of and changes in prepayments for property and equipment		(528,927)		(43,238)		(572,165)
Purchases of and deposits for wireless licenses and spectrum clearing costs		(32,717)		(1,594)		(34,311)
Proceeds from the sale of wireless licenses		2,965				2,965
Purchases of investments		(640,193)				(640,193)
Sales and maturities of investments		487,270				487,270
Investments in and advances to affiliates and consolidated subsidiaries	(265,907)				265,907	
Purchase of membership units of equity method investment						
Change in restricted cash		676		30		706
Net cash used in investing activities	(265,907)	(710,926)		(44,802)	265,907	(755,728)
Financing activities:						
Issuance of long-term debt		1,057,474				1,057,474
Issuance of related party debt		(123,000)		123,000		
Repayment of long-term debt		(877,500)		(3,404)		(880,904)
Payment of debt issuance costs		(15,094)				(15,094)
Capital contributions, net	265,907	265,907			(265,907)	265,907
Noncontrolling interests distribution						
Other		(1,227)		(128)	128	(1,227)

Net cash provided by financing activities	265,907	306,560		119,468	(265,779)	426,156
Net increase (decrease) in cash and cash equivalents	11	(138,901)		4,143		(134,747)
Cash and cash equivalents at beginning of period	27	333,119		24,562		357,708
Cash and cash equivalents at end of period	$ 38	$ 194,218	$	$ 28,705	$	$ 222,961

Condensed Consolidating Statement of Cash Flows for the Nine Months Ended September 30, 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	$ 999	$ 250,306	$	$ 20,011	$ (47)	$ 271,269
Investing activities:						
Acquisition of a business, net of cash acquired		(31,201)				(31,201)
Purchases of and changes in prepayments for property and equipment		(406,120)		(127,080)		(533,200)
Purchases of and deposits for wireless licenses and spectrum clearing costs		(74,167)		(531)		(74,698)
Return of deposit for wireless licenses		70,000				70,000
Purchases of investments		(446,590)				(446,590)
Sales and maturities of investments		329,939		11,300		341,239
Investments in and advances to affiliates and consolidated subsidiaries	(7,068)				7,068	
Purchase of membership units of equity method investment		(1,033)				(1,033)
Change in restricted cash	68	(2,393)		345		(1,980)
Net cash used in investing activities	(7,000)	(561,565)		(115,966)	7,068	(677,463)
Financing activities:						
Issuance of long-term debt	242,500	293,250				535,750
Issuance of related party debt	(242,500)	134,866		107,634		
Repayment of long-term debt		(6,750)		(1,000)		(7,750)
Payment of debt issuance costs	(1,049)	(6,458)				(7,507)
Capital contributions, net	7,068	7,068			(7,068)	7,068
				(47)	47	

Noncontrolling interests distribution						
Other		(12,900)				(12,900)
Net cash provided by financing activities	6,019	409,076		106,587	(7,021)	514,661
Net increase in cash and cash equivalents	18	97,817		10,632		108,467
Cash and cash equivalents at beginning of period	62	399,153		34,122		433,337
Cash and cash equivalents at end of period	$ 80	$ 496,970	$	$ 44,754	$	$ 541,804

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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 and consolidated joint ventures 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 economic downturn 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 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;
- our ability to attract, motivate and retain an experienced workforce;
- our ability to comply with the covenants in any credit agreement, indenture or similar instrument governing any of our existing or future indebtedness;
- 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.

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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 70.7% non-controlling interest in LCW Operations through a 70.7% 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 the Financial Accounting Standards Board s, or FASB s, authoritative guidance for the consolidation of variable interest entities because these entities are variable interest entities and we will absorb a majority of their expected losses.

As of September 30, 2009, Cricket service was offered in 34 states and the District of Columbia and had approximately 4.7 million customers. As of September 30, 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 91.1 million POPs as of September 30, 2009, which includes incremental POPs attributed to ongoing footprint expansion in existing markets. The licenses we and Denali purchased in the Federal Communications Commission s, or FCC s, auction for Advanced Wireless Services, or AWS, spectrum, or 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, assuming Denali License Sub were to make available to us certain of its spectrum.

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™, 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. We also offer Cricket PAYGo™, a 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 recently began distributing Cricket Broadband and daily and monthly pay-as-you-go versions of our Cricket PAYGo product through national mass-market retailers.

We believe that our business model is scalable and can be expanded successfully into adjacent and new markets because we offer an attractive value proposition to our customers while utilizing a cost structure that is significantly lower than most of our competitors. As a result, we have continued activities to broaden our product portfolio and to expand and improve our network coverage and capacity. In addition to our new product offerings described above, during the first half of 2009, we and Denali Operations launched new markets in Chicago, Philadelphia, Washington, D.C. and Baltimore covering approximately 24 million additional POPs, and we are currently completing the build out of those markets. We also continue to improve our network coverage and capacity in many of our existing markets and have deployed a substantial number of the approximately 600 cell sites that we plan to launch by the end of 2010 to enable us to provide improved service areas. In addition to our current business expansion efforts, we may pursue other activities to build our business. For example, we have identified new markets covering approximately 16 million additional POPs that we could elect to build out and launch with Cricket service in the future using our wireless licenses, although we have not established a timeline for any build out or launch of those markets. Other business expansion efforts could include (without limitation) the launch of new product and service offerings, 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 wireless services.

The telecommunications industry is very competitive. In general, we compete with national facilities-based wireless providers and their prepaid affiliates or brands, local and regional carriers, non-facilities-based mobile virtual network operators, or MVNOs, voice-over-internet-protocol service providers and traditional landline service providers, including telephone and cable companies. The competitive pressures of the wireless telecommunications industry have continued to increase and have caused a number of our competitors to offer competitively-priced unlimited prepaid and postpaid service offerings. These service offerings have presented additional strong competition in markets in which our offerings overlap. Our ability to remain competitive will depend, in part, on our ability to anticipate and respond to various competitive factors and to keep our costs low. We recently revised a number of our Cricket Wireless service plans to provide additional features previously only available in our higher-priced plans. These changes, which were made in response to the competitive and economic environment, have resulted in lower average monthly revenue per customer. We also recently revised certain features of our dealer compensation. In addition, rising unemployment levels have recently impacted our customer base, including, in particular, the lower-income segment of our customer base, decreasing their discretionary income. The evolving competitive and economic landscape has impacted our financial and operating results, and we expect that it may result in more competitive pricing, slower growth, higher costs and increased customer turnover, as well as the possibility of requiring us to further modify our service plans, increase our handset subsidies or increase our dealer compensation in response to competition. We believe that our cost structure provides us with a significant advantage in responding to changing competitive and economic conditions and enables us to revise our product and service offerings to attract and retain customers. Evolving competition or continuing unfavorable unemployment levels, however, could continue to adversely impact average monthly revenue per customer, increase churn and decrease operating income before depreciation and amortization, or OIBDA, and free cash flow.

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. See Liquidity and Capital Resources below.

Among the most significant factors affecting our financial condition and performance from period to period have been 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 consolidated 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 91.1 million covered POPs as of September 30, 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 4.66 million customers as of September 30, 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 $1.44 billion for the nine months ended September 30, 2008 to $1.78 billion for the nine months ended September 30, 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 $1.40 billion for the nine months ended September 30, 2008 to $1.76 billion for the nine months ended September 30, 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 $109.1 million for the nine months ended September 30, 2008 to $150.0 million for the nine months ended September 30, 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 $25.5 million for fiscal 2006, a net loss of $76.4 million for fiscal 2007 and a net loss of $143.4 million for the year ended December 31, 2008, and our net loss of $88.8 million for the nine months ended September 30, 2008 increased to a net loss of $174.0 million for the nine months ended September 30, 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 intend to continue to be disciplined as we consider and pursue future 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 broaden our product portfolio and expand and improve our network coverage and capacity. Any significant new activities may require significant expenditures and may suffer cost overruns. Any such significant capital expenditures or increased operating expenses will decrease 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 business expansion activities will be beneficial to our business and create additional value for our stockholders.

Critical Accounting Policies and Estimates

Our discussion and analysis of our results of operations and liquidity and capital resources are based on our condensed consolidated financial statements which have been prepared in accordance with accounting principles generally accepted in the United States of America, or GAAP. These principles require us to make estimates and judgments that affect our reported amounts of assets and liabilities, our disclosure of contingent assets and liabilities and our reported amounts of revenues and expenses. On an ongoing basis, we evaluate our estimates and judgments, including those related to revenue recognition and the valuation of deferred tax assets, long-lived assets and indefinite-lived intangible assets. We base our estimates on historical and anticipated results and trends and on various other assumptions that we believe are reasonable under the circumstances, including assumptions as to future events. These estimates form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. By their nature, estimates are subject to an inherent degree of uncertainty. Actual results may differ from our estimates.

In light of the current economic environment in the United States, we considered the fair value and recoverability of our wireless licenses and goodwill and have enhanced our discussion of our impairment testing policies below. The accounting estimates for our wireless licenses require management to make significant assumptions about fair value. Management s assumptions regarding fair value require significant judgment about economic factors, industry factors and technology considerations, as well as about our business prospects. Changes in these judgments may have a significant effect on the estimated fair values of our indefinite-lived intangible assets.

Wireless Licenses

We, LCW Wireless and Denali operate broadband Personal Communications Services, or PCS, and 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 we expect our subsidiaries and consolidated 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 our or our consolidated joint ventures PCS and AWS licenses. On a quarterly basis, we evaluate the remaining useful life of our 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, we test the wireless license for impairment in accordance with the authoritative guidance for the impairment or disposal of long-lived assets, and the wireless license would then be amortized prospectively over its estimated remaining useful life. In addition, and as more fully described below, on a quarterly basis, we evaluate the triggering event criteria outlined in the guidance for the impairment or disposal of long-lived assets to determine whether events or changes in circumstances indicate that an impairment condition may exist. In addition to these quarterly evaluations, we also test our wireless licenses for impairment in accordance with the authoritative guidance for goodwill and other intangible assets on an annual basis. Wireless licenses to be disposed of by sale are carried at the lower of their carrying value or fair value less costs to sell.

Portions of the AWS spectrum that we and Denali License Sub 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. Our and Denali s spectrum clearing costs are capitalized to wireless licenses as incurred.

Goodwill and Other Intangible Assets

Goodwill primarily represents the excess of reorganization value over the fair value of identified tangible and intangible assets recorded in connection with fresh-start reporting as of July 31, 2004. Certain of our other intangible assets were also recorded upon adoption of fresh-start reporting and now consist of trademarks which are being amortized on a straight-line basis over their estimated useful lives of fourteen years. Customer relationships acquired in connection with our acquisition of Hargray Wireless, LLC, or Hargray Wireless, in 2008 are amortized on an accelerated basis over a useful life of up to four years.

Impairment of Indefinite-Lived Intangible Assets

We assess potential impairments to our indefinite-lived intangible assets, including wireless licenses and goodwill, on an annual basis or when there is evidence that events or changes in circumstances indicate that an impairment condition may exist. In addition, and as more fully described below, on a quarterly basis, we evaluate the triggering event criteria outlined in the guidance for the impairment or disposal of long-lived assets to determine whether events or changes in circumstances indicate that an impairment condition may exist. The annual impairment test is conducted during the third quarter of each year. Accordingly, we performed our annual impairment test during the three months ended September 30, 2009.

Wireless Licenses

Our wireless licenses in our operating markets are combined into a single unit of account for purposes of testing impairment because management believes that utilizing these wireless licenses as a group represents the highest and best use of the assets, and the value of the wireless licenses would not be significantly impacted by a sale of one or a portion of the wireless licenses, among other factors. Our non-operating licenses are tested for impairment on an individual basis. As of September 30, 2009, the carrying values of our operating and non-operating wireless licenses were $1,889.3 million and $30.0 million, respectively. An impairment loss is recognized on our operating wireless licenses when the aggregate fair value of the wireless licenses is less than their aggregate carrying value and is measured as the amount by which the licenses aggregate carrying value exceeds their aggregate fair value. An impairment loss is recognized on our non-operating wireless licenses when the fair value of a wireless license is less than its carrying value and is measured as the amount by which the license s carrying value exceeds its fair value. Any required impairment loss is recorded as a reduction in the carrying value of the relevant wireless license and charged to results of operations. As a result of the annual impairment test of wireless licenses, we recorded an impairment charge of $0.6 million during the three and nine months ended September 30, 2009 and an impairment charge of $0.2 million during the three and nine months ended September 30, 2008 to reduce the carrying values of certain non-operating wireless licenses to their estimated fair values. No impairment charges were recorded for our operating wireless licenses as the aggregate fair values of these licenses exceeded the aggregate carrying value.

The valuation method we use to determine the fair value of our wireless licenses is the market approach. Under this method, we determine fair value by comparing our wireless licenses to sales prices of other wireless licenses of similar size and type that have been recently sold through government auctions and private transactions. As part of this market-level analysis, the fair value of each wireless license is evaluated and adjusted for developments or changes in legal, regulatory and technical matters, and for demographic and economic factors, such as population size, composition, growth rate and density, household and disposable income, and composition and concentration of the market s workforce in industry sectors identified as wireless-centric (e.g., real estate, transportation, professional services, agribusiness, finance and insurance). The market approach is an appropriate method to measure the fair value of our wireless licenses since this method values the licenses based on the sales price that would be received for the licenses in an orderly transaction between market participants (i.e., an exit price).

As more fully described above, the most significant assumption used to determine the fair value of our wireless licenses is comparable sales transactions. Other assumptions used in determining fair value include developments or changes in legal, regulatory and technical matters as well as demographic and economic factors. Changes in comparable sales prices would generally result in a corresponding change in fair value. For example, a ten percent decline in comparable sales prices would generally result in a ten percent decline in fair value. However, a decline in comparable sales would likely require further adjustment to fair value to capture more recent macro-economic changes and changes in the demographic and economic characteristics unique to our wireless licenses, such as population size, composition, growth rate and density, household and disposable income, and the extent of the wireless-centric workforce in the markets covered by our wireless licenses. Spectrum auctions and comparables sales transactions in recent periods have resulted in modest increases to the aggregate fair value of our wireless licenses as increases in fair value in larger markets were slightly offset by decreases in fair value in markets with lower population densities. In addition, favorable developments in technical matters such as spectrum clearing and handset availability have positively impacted the fair value of a significant portion of our wireless licenses. Partially offsetting these increases in value were demographic and economic-related adjustments that were required to capture current economic developments. These demographic and economic factors resulted in a decline in fair value for certain of our wireless licenses.

As a result of the valuation analysis discussed above, the fair value of our wireless licenses increased by approximately 5% from September 2008 to September 2009 (as adjusted to reflect the effects of our acquisitions and dispositions of wireless licenses during the period). As of September 30, 2009, the fair value of our wireless licenses significantly exceeded their carrying value. The aggregate fair value of our individual wireless licenses was

$2,425.1 million, which when compared to their respective aggregate carrying value of $1,919.3 million, yielded significant excess fair value.

As of September 30, 2009, the aggregate fair value and carrying value of our individual operating wireless licenses was $2,388.5 million and $1,889.3 million, respectively. If the fair value of our operating wireless licenses had declined by 10% as of September 30, 2009, we would not have recognized any impairment loss. As of September 30, 2009, the aggregate fair value and carrying value of our individual non-operating wireless licenses was $36.6 million and $30.0 million, respectively. If the fair value of our non-operating wireless licenses had declined by 10% as of September 30, 2009, we would have recognized an impairment loss of approximately $1.7 million.

Goodwill

We assess our goodwill for impairment at the reporting unit level by applying a fair value test. This fair value test involves a two-step process. The first step is to compare the book value of our net assets to our fair value. If the fair value is determined to be less than book value, a second step is performed to measure the amount of the impairment, if any.

We conduct our annual impairment testing during the third quarter of each year. In connection with this annual test, we base our determination of fair value primarily upon our average market capitalization for the month of August, plus an assumed control premium. Average market capitalization is calculated based upon the average number of shares of Leap common stock outstanding during such month and the average closing price of Leap common stock during such month. We believe that it is preferable to determine market capitalization using an average calculated over a one-month period, rather than on a single day at the end of a period, to account for fluctuations in the trading price of Leap common stock. In addition, we management consider the month of August to be an appropriate period over which to measure average market capitalization for purposes of the third quarter test because trading prices during the period reflect market reaction to our most recently announced financial and operating results, typically announced early in the month of August. Moreover, measuring the average market capitalization over the month of August provides us with sufficient time to complete our impairment assessment and report the results in our third quarter financial statements.

In conducting the annual impairment test during the third quarter of 2009, we applied an assumed control premium of 30% to our average market capitalization. We believe that consideration of an assumed control premium is customary in determining fair value, and we utilized an assumed control premium as contemplated by applicable accounting guidance. We believe that our consideration of a control premium was appropriate because we believe that our market capitalization does not fully capture the fair value of our business as a whole or the additional amount an assumed purchaser would pay to obtain a controlling interest in our company. We determined the amount of the assumed control premium as part of our third quarter 2009 testing based upon our relevant transactional experience, a review of recent comparable telecommunications transactions and an assessment of market, economic and other factors. The actual amount of any control premium realized in any transaction involving our company, however, could be higher or lower than the assumed control premium depending on the circumstances.

As of September 30, 2009, the carrying value of our goodwill was $430.1 million. Based upon our annual impairment test conducted during the third quarter of 2009, we determined that no impairment condition existed. As of August 31, 2009, the book value of our net assets was $1,758.5 million and the fair value of our company, based upon our average market capitalization during the month of August and an assumed control premium of 30%, was $1,850.7 million.

Although the average closing price of Leap common stock for the month of September was higher than the average closing price for the month of August, since September 30, 2009, the competition in markets in which we operate has intensified and the trading price of Leap common stock has been highly volatile, declining significantly below the level we considered in performing our annual impairment test. Since September 30, 2009, the closing price of Leap common stock has ranged from a high of $17.42 per share to a low of $13.03 per share, and the closing price of Leap common stock was $13.03 per share on November 5, 2009. If the trading price of Leap common stock were to continue to be adversely affected for a sustained period of time due to competition in the wireless telecommunications industry,

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significant changes in our financial or operating performance, unfavorable economic conditions or other factors, this decline could constitute a triggering event which would require us to perform an interim goodwill impairment test prior to our next annual impairment test during the third quarter of 2010 and possibly as soon as during the fourth quarter of 2009. If the first step of the interim impairment test were to indicate that a potential impairment existed, we would be required to perform the second step of the goodwill impairment test, which would require us to determine the fair value of our net assets and could require us to recognize a material non-cash impairment charge that could reduce all or a portion of the carrying value of our goodwill of $430.1 million.

Results of Operations

Operating Items

The following tables summarize operating data for our consolidated operations for the three and nine months ended September 30, 2009 and 2008 (in thousands, except percentages):

	Three Months Ended September 30,					
	2009	% of 2009 Service Revenues	2008	% of 2008 Service Revenues	Change from Prior Year Dollars	Change from Prior Year Percent
Revenues:						
Service revenues	$ 541,268		$ 434,523		$ 106,745	24.6%
Equipment revenues	58,200		62,174		(3,974)	(6.4)%
Total revenues	599,468		496,697		102,771	20.7%
Operating expenses:						
Cost of service	156,707	29.0%	129,708	29.9%	26,999	20.8%
Cost of equipment	133,502	24.7%	113,057	26.0%	20,445	18.1%
Selling and marketing	111,702	20.6%	77,407	17.8%	34,295	44.3%
General and administrative	87,077	16.1%	87,522	20.1%	(445)	(0.5)%
Depreciation and amortization	107,876	19.9%	86,033	19.8%	21,843	25.4%
Impairment of assets	639	0.1%	177	0.0%	462	261.0%
Total operating expenses	597,503	110.4%	493,904	113.7%	103,599	21.0%
Loss on sale or disposal of assets	(591)	(0.1)%	(402)	(0.1)%	(189)	(47.0)%
Operating income	$ 1,374	0.3%	$ 2,391	0.6%	$ (1,017)	(42.5)%

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	Nine Months Ended September 30,					
	2009	% of 2009 Service Revenues	2008	% of 2008 Service Revenues	Change from Prior Year Dollars	Change from Prior Year Percent
Revenues:						
Service revenues	$ 1,596,858		$ 1,250,595		$ 346,263	27.7%
Equipment revenues	187,005		189,344		(2,339)	(1.2)%
Total revenues	1,783,863		1,439,939		343,924	23.9%
Operating expenses:						
Cost of service	455,618	28.5%	359,735	28.8%	95,883	26.7%
Cost of equipment	419,073	26.2%	332,405	26.6%	86,668	26.1%
Selling and marketing	311,913	19.5%	209,783	16.8%	102,130	48.7%
General and administrative	274,192	17.2%	240,662	19.2%	33,530	13.9%
Depreciation and amortization	297,230	18.6%	254,839	20.4%	42,391	16.6%
Impairment of assets	639	0.0%	177	0.0%	462	261.0%
Total operating expenses	1,758,665	110.1%	1,397,601	111.8%	361,064	25.8%
Gain on sale or disposal of assets	1,436	0.1%	559	0.0%	877	156.9%
Operating income	$ 26,634	1.7%	$ 42,897	3.4%	$ (16,263)	(37.9)%

The following tables summarize customer activity for the three and nine months ended September 30, 2009 and 2008:

For the Three Months Ended September 30(1):	2009	2008	Change Amount	Change Percent
Gross customer additions	851,230	593,619	257,611	43.4%
Net customer additions	116,182	155,779	(39,597)	25.4%
Weighted-average number of customers	4,555,605	3,371,932	1,183,673	35.1%

For the Nine Months Ended September 30(1):	2009	2008	Change Amount	Change Percent
Gross customer additions	2,532,074	1,686,143	845,931	50.2%
Net customer additions	811,702	557,012	254,690	45.7%
Weighted-average number of customers	4,348,973	3,163,480	1,185,493	37.5%
As of September 30:				
Total customers	4,656,362	3,460,140	1,196,222	34.6%

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

Three and Nine Months Ended September 30, 2009 Compared to Three and Nine Months Ended September 30, 2008

Service Revenues

Service revenues increased $106.7 million, or 24.6%, for the three months ended September 30, 2009 compared to the corresponding period of the prior year. This increase resulted from a 35.1% increase in average total customers due primarily to new market launches during the first half of 2009 and customer acceptance of our Cricket Broadband service. This increase was partially offset by a 7.8% decline in average monthly revenues per customer. The decline in average monthly revenues per customer reflected increased customer acceptance of our lower-priced Cricket Wireless service plans and increased customer acceptance of our Cricket Broadband service,

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which is generally priced lower than our most popular Cricket Wireless service plans. Average monthly revenues per customer for the three months ended September 30, 2009 were also impacted by increased customer deactivations and higher reactivations due to the impact of rising unemployment on discretionary spending and increased competitive activity.

Service revenues increased $346.3 million, or 27.7%, for the nine months ended September 30, 2009 compared to the corresponding period of the prior year. This increase resulted from a 37.5% increase in average total customers due primarily to new market launches during the first half of 2009 and customer acceptance of our Cricket Broadband service. This increase was partially offset by a 7.1% decline in average monthly revenues per customer. The decline in average monthly revenues per customer reflected increased customer acceptance of our lower-priced Cricket Wireless service plans and increased customer acceptance of our Cricket Broadband service, which is generally priced lower than our most popular Cricket Wireless service plans. Average monthly revenues per customer for the nine months ended September 30, 2009 were also impacted by increased customer deactivations and higher reactivations due to the impact of rising unemployment on discretionary spending and increased competitive activity.

Equipment Revenues

Equipment revenues decreased $4.0 million, or 6.4%, for the three months ended September 30, 2009 compared to the corresponding period of the prior year. A 45% increase in handset and broadband data card sales volume was more than offset by a reduction in the average revenue per device sold. The reduction in the average revenue per device sold was primarily due to the increased promotions offered to our customers, the expansion of our low-cost handset offerings and the expansion of our Cricket Broadband and Cricket PAYGo product offerings.

Equipment revenues decreased $2.3 million, or 1.2%, for the nine months ended September 30, 2009 compared to the corresponding period of the prior year. A 46% increase in handset and broadband data card sales volume was more than offset by a reduction in the average revenue per device sold. The reduction in the average revenue per device sold was primarily due to the increased promotions offered to our customers, the expansion of our low-cost handset offerings and the expansion of our Cricket Broadband and Cricket PAYGo product offerings.

Cost of Service

Cost of service increased $27.0 million, or 20.8%, for the three months ended September 30, 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 the launch of our largest markets during the first half of 2009 and the resultant increase in the size of our network footprint and supporting infrastructure. The number of potential customers covered by our networks increased from approximately 61.7 million covered POPs as of September 30, 2008 to approximately 91.1 million covered POPs as of September 30, 2009. As a percentage of service revenues, cost of service decreased to 29.0% from 29.9% in the prior year period, primarily resulting from the increase in service revenues and the consequent benefits of scale.

Cost of service increased $95.9 million, or 26.7%, for the nine months ended September 30, 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 the launch of our largest markets during the first half of 2009 and the resultant increase in the size of our network footprint and supporting infrastructure. The number of potential customers covered by our networks increased from approximately 61.7 million covered POPs as of September 30, 2008 to approximately 91.1 million covered POPs as of September 30, 2009. As a percentage of service revenues, cost of service decreased to 28.5% from 28.8% in the prior year period, primarily resulting from the increase in service revenues and the consequent benefits of scale.

Cost of Equipment

Cost of equipment increased $20.4 million, or 18.1%, for the three months ended September 30, 2009 compared to the corresponding period of the prior year. A 45% increase in handset and broadband data card sales volume was partially offset by a reduction in the average cost per device sold, primarily due to the expansion of our low-cost product offerings.

Cost of equipment increased $86.7 million, or 26.1%, for the nine months ended September 30, 2009 compared to the corresponding period of the prior year. A 46% increase in handset and broadband data card sales volume was partially offset by a reduction in the average cost per device sold, primarily due to the expansion of our low-cost product offerings.

Selling and Marketing Expenses

Selling and marketing expenses increased $34.3 million, or 44.3%, for the three months ended September 30, 2009 compared to the corresponding period of the prior year. As a percentage of service revenues, such expenses increased to 20.6% from 17.8% in the prior year period. This percentage increase was largely attributable to a 1.8% increase in media and advertising costs as a percentage of service revenues and a 0.8% increase in store and staffing costs as a percentage of service revenues primarily reflecting costs associated with the launch of our largest markets during the first half of 2009 and the costs associated with the expansion of our Cricket Broadband and Cricket PAYGo service offerings.

Selling and marketing expenses increased $102.1 million, or 48.7%, for the nine months ended September 30, 2009 compared to the corresponding period of the prior year. As a percentage of service revenues, such expenses increased to 19.5% from 16.8% in the prior year period. This percentage increase was largely attributable to a 1.7% increase in media and advertising costs as a percentage of service revenues and a 1.0% increase in store and staffing costs as a percentage of service revenues primarily reflecting costs associated with the launch of our largest markets during the first half of 2009 and the costs associated with the expansion of our Cricket Broadband and Cricket PAYGo service offerings.

General and Administrative Expenses

General and administrative expenses decreased $0.4 million, or 0.5%, for the three months ended September 30, 2009 compared to the corresponding period of the prior year. As a percentage of service revenues, such expenses decreased to 16.1% from 20.1% in the prior year period primarily due to the increase in service revenues and consequent benefits of scale.

General and administrative expenses increased $33.5 million, or 13.9%, for the nine months ended September 30, 2009 compared to the corresponding period of the prior year. As a percentage of service revenues, such expenses decreased to 17.2% from 19.2% in the prior year period primarily due to the increase in service revenues and consequent benefits of scale.

Depreciation and Amortization

Depreciation and amortization expense increased $21.8 million, or 25.4%, for the three months ended September 30, 2009 compared to the corresponding period of the prior year and increased $42.4 million, or 16.6%, for the nine months ended September 30, 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 $1,661.5 million as of September 30, 2008 to approximately $2,093.0 million as of September 30, 2009, in connection with the build-out and launch of our new markets throughout 2008 and during the first half of 2009 and the improvement and expansion of our networks in existing markets.

Impairment of Assets

As more fully described above, as a result of our annual impairment tests of our wireless licenses, we recorded impairment charges of $0.6 million and $0.2 million during the three and nine months ended September 30, 2009 and the three and nine months ended September 30, 2008, respectively, to reduce the carrying values of certain non-operating wireless licenses to their fair values.

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Gain (Loss) on Sale or Disposal of Assets

During the three months ended September 30, 2009, we recognized losses of approximately $0.6 million upon the disposal of certain of our property and equipment.

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, in March 2009. We recognized a non-monetary net gain of approximately $4.4 million upon the closing of the transaction. This net gain was partially offset by approximately $3.0 million in losses we recognized upon the disposal of certain of our property and equipment during the nine months ended September 30, 2009.

Non-Operating Items

The following tables summarize non-operating data for our consolidated operations for the three and nine months ended September 30, 2009 and 2008 (in thousands):

	Three Months Ended September 30,		
	2009	**2008**	**Change**
Equity in net income of investee	$ 996	$ 230	$ 766
Interest income	727	4,072	(3,345)
Interest expense	(59,129)	(45,352)	(13,777)
Other income (expense), net	(17)	1,115	(1,132)
Income tax expense	(9,358)	(9,726)	368

	Nine Months Ended September 30,		
	2009	**2008**	**Change**
Equity in net income (loss) of investee	$ 2,990	$ (1,127)	$ 4,117
Interest income	2,314	11,439	(9,125)
Interest expense	(150,040)	(109,110)	(40,930)
Other expense, net	(126)	(3,228)	3,102
Loss on extinguishment of debt	(26,310)		(26,310)
Income tax expense	(29,412)	(29,683)	271

Three and Nine Months Ended September 30, 2009 Compared to Three and Nine Months Ended September 30, 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 hold an investment.

Interest Income

Interest income decreased $3.3 million during the three months ended September 30, 2009 compared to the corresponding period of the prior year. This decrease was primarily attributable to a decline in short-term interest rates from the corresponding period of the prior year.

Interest income decreased $9.1 million during the nine months ended September 30, 2009 compared to the corresponding period of the prior year. This decrease was primarily attributable to a decline in short-term interest rates from the corresponding period of the prior year.

Interest Expense

Interest expense increased $13.8 million during the three months ended September 30, 2009 compared to the corresponding period of the prior year. The increase in interest expense resulted primarily from our issuance of

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$1,100 million of senior secured notes in June 2009, in addition to interest expense we incurred under our $895.5 million term loan under our former amended and restated credit agreement, or Credit Agreement, of which we repaid all principal amounts outstanding in June 2009. We capitalized $1.3 million of interest during the three months ended September 30, 2009 compared to $12.5 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 future capitalized interest to be less significant given the completion of our launches of our largest markets during the first half of 2009. See Liquidity and Capital Resources below.

Interest expense increased $40.9 million during the nine months ended September 30, 2009 compared to the corresponding period of the prior year. The increase in interest expense resulted primarily from our issuance of $300 million of unsecured senior notes and $250 million of convertible senior notes in June 2008, our issuance of $1,100 million of senior notes in June 2009, and the increase in the interest rate applicable to our $895.5 million term loan under an amendment to our former Credit Agreement in June 2008. We capitalized $20.5 million of interest during the nine months ended September 30, 2009 compared to $38.6 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 future capitalized interest to be less significant given the completion of our launches of our largest markets during the first half of 2009. See Liquidity and Capital Resources below.

Loss on Extinguishment of Debt

In connection with our issuance of $1,100 million of senior secured notes due 2016 on June 5, 2009, as more fully described below, we repaid all principal amounts outstanding under our Credit Agreement, which amounted to approximately $875.3 million, together with accrued interest and related expenses, a prepayment premium of $17.5 million and a payment of $8.5 million in connection with the unwinding of associated interest rate swap agreements. In connection with such repayment, the Company terminated the Credit Agreement and the $200 million revolving credit facility thereunder. As a result of the termination of the Credit Agreement, we recognized a $26.3 million loss on extinguishment of debt during the nine months ended September 30, 2009, which was comprised of the $17.5 million prepayment premium, $7.5 million of unamortized debt issuance costs and $1.3 million of unamortized accumulated other comprehensive loss associated with our interest rate swaps.

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, consists primarily of the deferred tax effect of our investments in joint ventures that are in a deferred tax liability position and 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 the authoritative guidance for the accounting for income taxes in interim periods, we have calculated our provision for income taxes for the three and nine months ended September 30, 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 and nine months ended September 30, 2009, we recorded income tax expense of $9.4 million and $29.4 million, respectively, compared to income tax expense of $9.7 million and $29.7 million for the three and nine months ended September 30, 2008, respectively. The decrease in income tax expense during the three months ended September 30, 2009 related primarily to a decrease in income tax expense associated with our investment in LCW Wireless and a decrease in our Texas Margins Tax, or TMT, liability. The decrease in income tax expense during the nine months ended September 30, 2009 was attributable to several factors, including the termination of our interest rate swaps, a decrease in income tax expense associated with our investment in LCW Wireless and 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, offset by an increase to our TMT liability. The new California law permits 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 as of September 30, 2009 were federal NOL carryforwards of approximately $1.4 billion (which will begin to expire in 2022) and state NOL carryforwards of approximately $1.4 billion ($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 TMT 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 the authoritative guidance for business combinations, 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 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. 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 of 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 broad customer base and, as a result, some of our customers may be more likely to have their service terminated due to an inability to pay.

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. 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 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. 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 September 30, 2009 and 2008:

	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008
ARPU	$ 39.60	$ 42.95
CPGA	$ 208	$ 201
CCU	$ 17.73	$ 21.50
Churn	5.4%	4.2%

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 September 30, 2009	Three Months Ended September 30, 2008
Selling and marketing expense	$ 111,702	$ 77,407
Less share-based compensation expense included in selling and marketing expense	(1,866)	(871)
Plus cost of equipment	133,502	113,057
Less equipment revenue	(58,200)	(62,174)
Less net loss on equipment transactions unrelated to initial customer acquisition	(7,708)	(7,880)
Total costs used in the calculation of CPGA	$ 177,430	$ 119,539
Gross customer additions	851,230	593,619
CPGA	$ 208	$ 201

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 September 30, 2009	Three Months Ended September 30, 2008
Cost of service	$ 156,707	$ 129,708
Plus general and administrative expense	87,077	87,522
Less share-based compensation expense included in cost of service and general and administrative expense	(9,141)	(7,595)
Plus net loss on equipment transactions unrelated to initial customer acquisition	7,708	7,880
Total costs used in the calculation of CCU	$ 242,351	$ 217,515
Weighted-average number of customers	4,555,605	3,371,932
CCU	$ 17.73	$ 21.50

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 $614.1 million in unrestricted cash, cash equivalents and short-term investments as of September 30, 2009. We generated $194.8 million of net cash from operating activities during the nine months ended September 30, 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, we generated $426.2 million of net cash from financing activities during the nine months ended September 30, 2009, which included proceeds from our issuance of senior secured notes and sale of Leap common stock in June 2009. From time to time, we may generate additional liquidity through future capital markets transactions.

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 below, include activities to broaden our product portfolio and to expand and improve our network coverage and capacity.

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 be available, if necessary, to address unanticipated variations or changes in working capital, operating and capital requirements, and 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, further 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 expenditures, including capital expenditures, 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.

Our current business expansion efforts include activities to broaden our product portfolio and to expand and improve our network coverage and capacity. We have introduced two new product offerings, Cricket Broadband and Cricket PAYGo, in all of our and our consolidated joint ventures markets to complement our Cricket Wireless service. In addition, we recently began distributing Cricket Broadband and daily and monthly pay-as-you-go versions of our Cricket PAYGo product through national mass-market retailers. In addition, during the first half of 2009, we and Denali Operations launched new markets in Chicago, Philadelphia, Washington, D.C. and Baltimore covering approximately 24 million additional POPs, and we are currently completing the build out of those markets. We also continue to improve our network coverage and capacity in many of our existing markets and have deployed a substantial number of the approximately 600 cell sites that we plan to launch by the end of 2010 to enable us to provide improved service areas.

Our current business operations and expansion efforts have required significant expenditures. Our operating expenses for the year ended December 31, 2008 and for the nine months ended September 30, 2009 were $1,912.0 million and $1,758.7 million, respectively. In addition, we and our consolidated joint ventures made approximately $795.7 million and $577.5 million in capital expenditures, including related capitalized interest costs, during the year ended December 31, 2008 and the nine months ended September 30, 2009, respectively, primarily to support the build out and launch of new markets, the expansion and improvement of our existing wireless networks and other planned capital projects. Total capital expenditures for 2009, excluding capitalized interest costs, are expected to be between $650 million and $700 million. 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, we may pursue other activities to build our business. For example, we have identified new markets covering approximately 16 million additional POPs that we could elect to build out and launch with Cricket service in the future using our wireless licenses, although we have not established a timeline for any build out or launch of those markets. Other business expansion efforts could include (without limitation) the launch of new product and service offerings, 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 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.

As of September 30, 2009, we had $2,750 million in senior indebtedness outstanding, which comprised $1,100 million of 9.375% unsecured senior notes due 2014, $250 million of 4.5% convertible senior notes due 2014,

$300 million of 10.0% unsecured senior notes due 2015 and $1,100 million of 7.75% senior secured notes due 2016, as more fully described below. The indentures governing Cricket s secured and unsecured 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.

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 to monitor our ability to service our debt and to assess our capacity to incur additional debt under the indentures governing Cricket s secured and unsecured senior notes. In addition, as the new markets and product offerings that we have launched continue to develop and our existing markets mature, we expect that increased cash flows will ultimately result in improvements in our consolidated leverage ratio. Our $2,750 million of secured and unsecured senior notes and convertible senior notes all bear interest at a fixed rate; however, we continue to review changes and trends in interest rates to evaluate possible hedging activities we could consider implementing. 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 $76.4 million, or 28.2%, for the nine months ended September 30, 2009 compared to the corresponding period of the prior year. This decrease was primarily attributable to decreased operating income, reflecting increased expenses associated with the launch of our largest markets during the first half of 2009.

Investing Activities

Net cash used in investing activities was $755.7 million during the nine months ended September 30, 2009, which included the effects of the following transactions:

During the nine months ended September 30, 2009, we and our consolidated joint ventures purchased $577.5 million of property and equipment for the build-out of our new markets and the expansion and improvement of our existing markets.

In June 2009, we completed our purchase of certain wireless spectrum in St. Louis for approximately $27.2 million.

During the nine months ended September 30, 2009, we made investment purchases of $640.2 million, offset by sales or maturities of investments of $487.3 million.

Financing Activities

Net cash provided by financing activities was $426.2 million during the nine months ended September 30, 2009, which included the effects of the following transactions:

During the nine months ended September 30, 2009, we issued $1,100 million of senior secured notes, and we used a portion of the $1,057.5 million net cash proceeds from the issuance to repay all principal amounts outstanding under our Credit Agreement, which amounted to $875.3 million. In addition, we incurred $15.1 million in debt issuance costs in connection with the issuance of the senior secured notes. Additionally, we made payments of $2.3 million under our former Credit Agreement during the first quarter of 2009 and LCW Operations made payments of $3.4 million under its senior secured credit agreement during the nine months ended September 30, 2009.

During the nine months ended September 30, 2009, we sold an aggregate of 7,000,000 shares of Leap common stock in an underwritten public offering, resulting in aggregate net proceeds of $263.7 million. In addition, during the nine months ended September 30, 2009, we issued common stock upon the exercise of stock options held by our employees, resulting in aggregate net proceeds of $2.2 million.

Senior Secured Credit Facilities

Cricket Communications

In connection with our issuance of $1,100 million of senior secured notes due 2016 on June 5, 2009, as more fully described below, we repaid all principal amounts outstanding under our Credit Agreement, which amounted to approximately $875.3 million, together with accrued interest and related expenses, a prepayment premium of $17.5 million and a payment of $8.5 million in connection with the unwinding of associated interest rate swap agreements. In connection with such repayment, we terminated the Credit Agreement and the $200 million revolving credit facility thereunder. As a result of the termination of the Credit Agreement, we recognized a $26.3 million loss on extinguishment of debt, which was comprised of the $17.5 million prepayment premium, $7.5 million of unamortized debt issuance costs and $1.3 million of unamortized accumulated other comprehensive loss associated with our interest rate swaps.

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 September 30, 2009, the effective interest rate on the term loans was 4.4%, and the outstanding indebtedness was $35.1 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 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 September 30, 2009.

Senior Notes

Unsecured 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 September 30, 2009, the effective interest rate on the $350 million of senior notes was 9.0%, 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 senior secured notes described below, to the extent of the value of the assets securing such obligations, as well as to existing and 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, 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 beginning on November 1, 2010 and 2011, respectively, or at 100% of the principal amount if redeemed during the twelve months beginning on November 1, 2012 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 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 secured and unsecured senior notes described above and below. The notes are effectively junior to all of Leap s existing and future secured obligations, including under the senior secured notes described below, 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 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, we entered into a registration rights agreement with the initial purchasers of the notes in which we 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 were not performed. However, our 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, or the Securities Act, by a person who is not an affiliate of ours (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. We did not issue any of the convertible senior notes to any of our affiliates. As a result, in June 2009 following the first anniversary of the issue date, the notes became eligible to be transferred without registration pursuant to Rule 144 without any volume or manner of sale restrictions, and on July 2, 2009 the restrictive legends were removed from the notes. Accordingly, we have no further obligation to pay additional interest on the notes.

Unsecured 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 senior secured notes described below, to the extent of the value of the assets securing such obligations, as well as to existing and 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, 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 beginning on July 15, 2012 and 2013, respectively, or at 100% of the principal amount if redeemed during the twelve months beginning on July 15, 2014 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 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.

In connection with the private placement of these senior notes, we entered into a registration rights agreement with the initial purchasers of the notes in which we agreed, under certain circumstances, to use 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 were not performed. However, our 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 ours (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. We did not issue any of the senior notes to any of our affiliates. As a result, in June 2009 following the first anniversary of the issue date, the notes became eligible to be transferred without registration pursuant to Rule 144 without any volume or manner of sale restrictions, and on July 2, 2009 the restrictive transfer legends were removed from the notes. Accordingly, we have no further obligation to pay additional interest on the notes.

Senior Secured Notes Due 2016

On June 5, 2009, Cricket issued $1,100 million of 7.75% senior secured notes due 2016 in a private placement to institutional buyers at an issue price of 96.134% of the principal amount. The $42.5 million discount to the net proceeds we received in connection with the issuance of the notes has been recorded in long-term debt in the condensed consolidated financial statements and is being accreted as an increase to interest expense over the term of the notes. At September 30, 2009, the effective interest rate on the notes was 8.1%, which includes the effect of the discount accretion.

The notes bear interest at the rate of 7.75% per year, payable semi-annually in cash in arrears, which interest payments commence in November 2009. The notes are guaranteed on a senior secured basis by Leap and each of its direct and indirect existing domestic subsidiaries (other than Cricket, which is the issuer of the notes, and LCW Wireless and Denali and their respective subsidiaries) and any future wholly owned domestic restricted subsidiary that guarantees any indebtedness of Cricket or a guarantor of the notes. The notes and the guarantees are Leap s, Cricket s and the guarantors senior secured obligations and are equal in right of payment with all of Leap s, Cricket s and the guarantors existing and future unsubordinated indebtedness.

The notes and the guarantees are effectively senior to all of Leap s, Cricket s and the guarantors existing and future unsecured indebtedness (including Cricket s $1.4 billion aggregate principal amount of unsecured senior notes and, in the case of Leap, Leap s $250 million aggregate principal amount of convertible senior notes), as well as to all of Leap s, Cricket s and the guarantors obligations under any permitted junior lien debt that may be

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incurred in the future, in each case to the extent of the value of the collateral securing the senior secured notes and the guarantees.

The notes and the guarantees are secured on a *pari passu* basis with all of Leap s, Cricket s and the guarantors obligations under any permitted parity lien debt that may be incurred in the future. Leap, Cricket and the guarantors are permitted to incur debt under existing and future secured credit facilities in an aggregate principal amount outstanding (including the aggregate principal amount outstanding of the senior secured notes) of up to the greater of $1,500 million and 3.5 times Leap s consolidated cash flow (excluding the consolidated cash flow of LCW Wireless and Denali) for the prior four fiscal quarters through December 31, 2010, stepping down to 3.0 times such consolidated cash flow for any such debt incurred after December 31, 2010 but on or prior to December 31, 2011, and to 2.5 times such consolidated cash flow for any such debt incurred after December 31, 2011.

The notes and the guarantees are effectively junior to all of Leap s, Cricket s and the guarantors obligations under any permitted priority debt that may be incurred in the future (up to the lesser of 0.30 times Leap s consolidated cash flow (excluding the consolidated cash flow of LCW Wireless and Denali) for the prior four fiscal quarters and $300 million in aggregate principal amount outstanding), to the extent of the value of the collateral securing such permitted priority debt, as well as to existing and 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.

The notes and the guarantees are secured on a first-priority basis, equally and ratably with any future parity lien debt, by liens on substantially all of the present and future personal property of Leap, Cricket and the guarantors, except for certain excluded assets and subject to permitted liens (including liens on the collateral securing any future permitted priority debt).

Prior to May 15, 2012, Cricket may redeem up to 35% of the aggregate principal amount of the notes at a redemption price of 107.750% 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 May 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, and additional 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 May 15, 2012 plus (2) all remaining required interest payments due on such notes through May 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 May 15, 2012, at a redemption price of 105.813%, 103.875% and 101.938% of the principal amount thereof if redeemed during the twelve months beginning on May 15, 2012, 2013 and 2014, respectively, or at 100% of the principal amount if redeemed during the twelve months beginning on May 15, 2015 or thereafter, plus accrued and unpaid interest, and additional 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 (other than a transaction where immediately after such transaction Leap will be a wholly owned subsidiary of a person of which no person or group is the beneficial owner of 35% or more of such person s voting stock), 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, and additional 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 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.

In connection with the private placement of the notes, we entered into a registration rights agreement with the purchasers in which we agreed to file a registration statement with the SEC to permit the holders to exchange or resell the notes. We must use reasonable best efforts to file such registration statement within 150 days after the issuance of the notes, have the registration statement declared effective within 270 days after the issuance of the notes and then consummate any exchange offer within 30 business days after the effective date of the registration statement. In the event that the registration statement is not filed or declared effective or the exchange offer is not consummated within these deadlines, the agreement provides that additional interest will accrue on the principal amount of the notes at a rate of 0.50% per annum during the 90-day period immediately following any of these events and will increase by 0.50% per annum at the end of each subsequent 90-day period, but in no event will the penalty rate exceed 1.50% per annum. There are no other alternative settlement methods and, other than the 1.50% per annum maximum penalty rate, the agreement contains no limit on the maximum potential amount of consideration that could be transferred in the event we do not meet the registration statement filing requirements. We filed a Registration Statement on Form S-4 with the SEC on October 15, 2009 pursuant to this registration rights agreement, and currently intend to have the registration statement declared effective and consummate the exchange offer within these time periods. Accordingly, we do not believe that payment of additional interest under the registration payment arrangement is probable.

Fair Value of Financial Instruments

As more fully described in Note 2 and Note 5 to our condensed consolidated financial statements included in Part I Item 1. Financial Statements of this report, we apply the authoritative guidance for fair value measurements to our assets and liabilities. The guidance defines fair value as an exit price, which is the price that would be received to sell an asset or paid to transfer 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 less judgment utilized in measuring fair value. Conversely, assets and liabilities 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 or market for the asset or liability and the complexity of the asset or liability.

We have categorized our assets and liabilities measured at fair value into a three-level hierarchy in accordance with the guidance for fair value measurements. Assets and liabilities that use quoted prices in active markets for identical assets or liabilities are generally categorized as Level 1, assets and liabilities that use 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 that use unobservable inputs that cannot be corroborated by market data are generally categorized as Level 3. Such Level 3 assets and liabilities have values determined using pricing models and indicative bids from potential purchasers for which the determination of fair value requires judgment and estimation. As of September 30, 2009, $2.4 million of our financial assets required fair value to be measured using Level 3 inputs.

Generally, our results of operations are not significantly impacted by our assets and liabilities accounted for at fair value due to the nature of each asset and liability. However, through our non-controlled consolidated subsidiary Denali, we hold an investment in asset-backed commercial paper, which was purchased as a highly rated investment grade security. Future volatility and uncertainty in the financial markets could result in additional losses and difficulty in monetizing our remaining investment.

We continue to report our long-term debt obligations at amortized cost and disclose the fair value of such obligations. There was no transition adjustment as a result of our adoption of the guidance for fair value measurements given our historical practice of measuring and reporting our short-term investments and former interest rate swaps at fair value.

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System Equipment Purchase Agreements

In 2007, we entered into certain system equipment purchase agreements which generally have a term of three years. In these agreements, we agreed to purchase and/or license wireless communications systems, products and services designed to be AWS functional at a current estimated cost to us 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, we are entitled to certain pricing discounts, credits and incentives, which discounts, credits and incentives are subject to our achievement of our purchase commitments, and to certain technical training for our personnel. If the purchase commitment levels under the agreements are not achieved, we may be required to refund previous credits and incentives we applied to historical purchases.

Capital Expenditures and Other Asset Acquisitions and Dispositions

Capital Expenditures

During the nine months ended September 30, 2009, we and Denali Operations launched new markets in Chicago, Philadelphia, Washington, D.C. and Baltimore covering approximately 24 million additional POPs, and we are currently completing the build out of those markets. We also continue to improve our network coverage and capacity in many of our existing markets and have deployed a substantial number of the approximately 600 cell sites that we plan to launch by the end of 2010 to enable us to provide improved service areas.

During the nine months ended September 30, 2009 and 2008, we and our consolidated joint ventures made approximately $577.5 million and $528.3 million, respectively, in capital expenditures. These capital expenditures were primarily for the build-out of new markets, including related capitalized interest, expansion and improvement of our existing wireless networks, and other planned capital projects.

Capital expenditures for 2009 are expected to be between $650 million and $700 million, excluding capitalized interest, which reflects capital already spent or committed to launch and complete the build-out of new markets, capital expenditures required to support the ongoing growth and development of markets that have been in commercial operation for one year or more and other planned capital projects.

Other Acquisitions and Dispositions

In March 2009, we completed our exchange of certain wireless spectrum with MetroPCS. Under the spectrum exchange agreement, we 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 we recognized a non-monetary net gain of approximately $4.4 million upon the closing of the transaction.

On June 19, 2009, we completed our purchase of certain wireless spectrum. Under the license purchase agreement, we acquired an additional 10 MHz of spectrum in St. Louis for $27.2 million.

Off-Balance Sheet Arrangements

We do not have and have not had any material off-balance sheet arrangements.

Recent Accounting Pronouncements

In June 2009, the FASB revised the authoritative guidance for the consolidation of variable interest entities, which will be effective for all variable interest entities and relationships with variable interest entities existing as of January 1, 2010. The revised authoritative guidance requires an enterprise to determine whether its variable interest or interests give it a controlling financial interest in a variable interest entity. The primary beneficiary of a variable interest entity is the enterprise that has both (1) the power to direct the activities of a variable interest entity that most significantly impact the entity s economic performance and (2) the obligation to absorb losses of the entity that could potentially be significant to the variable interest entity or the right to receive benefits from the entity that could potentially be significant to the variable interest entity. The revised guidance requires ongoing reassessments of whether an enterprise is the primary beneficiary of a variable interest entity. We are currently evaluating what impact, if any, the revised guidance will have on our consolidated financial statements.

In September 2009, the FASB revised the authoritative guidance for revenue arrangements with multiple deliverables, which will be effective for fiscal years beginning after June 15, 2010 and may be applied retrospectively or prospectively for new or materially modified arrangements. The revised guidance addresses how to determine whether an arrangement involving multiple deliverables contains more than one unit of accounting, and how the arrangement consideration should be allocated among the separate units of accounting. The revised guidance retains the criteria of the superseded guidance for when delivered items in a multiple-deliverable arrangement should be considered separate units of accounting, but eliminates the requirement that all undelivered elements must have objective and reliable evidence of fair value before a company can recognize the portion of the overall arrangement revenue that is attributable to items that already have been delivered. In addition, the revised guidance requires companies to allocate revenue in arrangements involving multiple deliverables based on the estimated selling price of each deliverable, even though the selling price of such deliverables may not be sold separately. As a result, the revised guidance may allow some companies to recognize revenue on transactions that involve multiple deliverables earlier than under the previous requirements. We are currently evaluating what impact, if any, the revised guidance will have on our consolidated financial statements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Interest Rate Risk

As of September 30, 2009, approximately 1.3% of our indebtedness for borrowed money accrued interest at a variable rate, which comprised $35.1 million in outstanding term loans under LCW Operations senior secured credit facility, compared to approximately 21.6% of our indebtedness for borrowed money as of December 31, 2008. The reduction during the nine months ended September 30, 2009 in the percentage of indebtedness accruing interest at a variable rate resulted from the repayment of all principal amounts outstanding under our former Credit Agreement and the unwinding of our associated interest rate swap agreements in connection with the issuance of $1,100 million of senior secured notes on June 5, 2009. Our senior secured, senior and convertible senior notes all bear interest at a fixed rate. As a result, we do not expect fluctuations in interest rates to have a material adverse effect on our business, financial condition or results of operations.

Hedging Policy

Our policy is to maintain interest rate hedges to the extent that we believe them to be fiscally prudent. We do not engage in any hedging activities for speculative purposes.

Item 4. Controls and Procedures.

(a) Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified by the SEC and that such information is accumulated and communicated to management, including our chief executive officer, or CEO, and chief financial officer, or CFO, as appropriate, to allow for timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Management, with participation by our CEO and CFO, has designed our disclosure controls and procedures to provide reasonable assurance of achieving desired objectives. As required by SEC Rule 13a-15(b), in connection with filing this Quarterly Report on Form 10-Q, management conducted an evaluation, with the participation of our CEO and our CFO, of the effectiveness of the design and operation of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the Exchange Act, as of September 30, 2009, the end of the period covered by this report. Based upon that evaluation, our CEO and CFO concluded that our disclosure controls and procedures were effective at the reasonable assurance level as of September 30, 2009.

(b) Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the fiscal quarter ended September 30, 2009 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 4T. Controls and Procedures.

Not applicable.

PART II

OTHER INFORMATION

Item 1. Legal Proceedings.

As more fully described below, we are 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 our business operations, we have become subject to increased amounts of litigation, including disputes alleging intellectual property infringement.

We believe that any damage amounts alleged in the matters discussed below are not necessarily meaningful indicators of our potential liability. We determine whether we should accrue an estimated loss for a contingency in a particular legal proceeding by assessing whether a loss is deemed probable and can be reasonably estimated. We reassess our views on estimated losses on a quarterly basis to reflect the impact of any developments in the matters in which we are involved.

Legal proceedings are inherently unpredictable, and the matters in which we are involved often present complex legal and factual issues. We vigorously pursue defenses in legal proceedings and engage in discussions where possible to resolve these matters on terms favorable to us. It is possible, however, that our 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, we were sued by Freedom Wireless, Inc., or 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 our Cricket unlimited voice service, in addition to our Jump® Mobile and Cricket by Week™ services, infringes claims under the patents at issue. On January 19, 2009, we and Freedom Wireless entered into an agreement to settle this lawsuit and agreed to enter into a license agreement which will provide Freedom Wireless with royalties on certain of our products and services. Pursuant to the terms of the settlement, arbitration has been scheduled for December 15, 2009 to finalize the terms of the settlement and license agreements.

Electronic Data Systems

On February 4, 2008, we and certain other wireless carriers were sued by Electronic Data Systems Corporation, or 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 alleged that the sale and marketing by us of prepaid wireless cellular telephone services infringed these patents, and the complaint sought an injunction against further infringement, damages (including enhanced damages) and attorneys fees. In July 2009, the parties settled this matter.

DNT

On May 1, 2009, we were sued by DNT LLC, or 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 we use, encourage the use of, sell, offer for sale and/or import voice

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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 our infringement is willful, and the complaint seeks an injunction against further infringement, unspecified damages (including enhanced damages) and attorneys fees. On July 23, 2009, we filed an answer to the complaint as well as counterclaims.

Digital Technology Licensing

On April 21, 2009, we and certain other wireless carriers (including Hargray Wireless, a company which Cricket acquired in April 2008 and which was merged with and into Cricket in December 2008) were sued by Digital Technology Licensing LLC, or DTL, in the United States District Court for the Southern District of New York, for alleged infringement of U.S. Patent No. 5,051,799 entitled Digital Output Transducer. DTL alleges that we and Hargray Wireless sell and/or offer to sell Bluetooth® devices or digital cellular telephones, including Kyocera and Sanyo telephones, and that such acts constitute direct and/or indirect infringement of DTL s patent. DTL further alleges that we and Hargray Wireless directly and/or indirectly infringe its patent by providing cellular telephone service and by using and inducing others to use a patented digital cellular telephone system by using cellular telephones, Bluetooth devices, and cellular telephone infrastructure made by companies such as Kyocera and Sanyo. DTL alleges that the asserted infringement is willful, and the complaint seeks a permanent injunction against further infringement, unspecified damages (including enhanced damages), attorneys fees, and expenses. On August 14, 2009, we filed a motion to dismiss the complaint or, in the alternative, for a more definite statement.

On The Go

On July 9, 2009, we and certain other wireless carriers were sued by On The Go, LLC, or OTG, in the United States District Court for the Northern District of Illinois, Eastern Division, for alleged infringement of U.S. Patent No. 7,430,554 entitled Method and System For Telephonically Selecting, Addressing, and Distributing Messages. OTG s complaint alleges that we directly and indirectly infringe OTG s patent by making, offering for sale, selling, providing, maintaining, and supporting our PAYGo prepaid mobile telephone service and system. The complaint seeks injunctive relief and unspecified damages, including interest and costs. On October 8, 2009, we filed an answer to the complaint as well as counterclaims.

American Wireless Group

On December 31, 2002, several members of American Wireless Group, LLC, or 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.

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.

Although Leap is not a defendant in either the Whittington or AWG Lawsuits, several of the defendants have indemnification agreements with us. Insurers under our directors and officers liability insurance policy for these matters asserted that we were required to contribute to the payment of litigation costs and to any damages or settlement costs, which we disputed. The AWG and Whittington Lawsuits were settled on October 29, 2009, and the matters have been dismissed.

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. One of the shareholder derivative lawsuits was filed in the California Superior Court for the County of San Diego on November 13, 2007 and the other shareholder derivative lawsuit was filed in the United States District Court for the Southern District of California on February 7, 2008. 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 we were restating certain of our financial statements, claims alleging breach of fiduciary duty based on the September 2007 unsolicited merger proposal from MetroPCS 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. On September 29, 2009, the district court granted Leap s motion to dismiss the derivative complaint for failure to plead that a presuit demand on Leap s board was excused. Based on a stipulated order, the plaintiff has until November 30, 2009 to file an amended 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 which consolidated several securities class action lawsuits initially filed between September 2007 and January 2008. 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 we were restating certain of our financial statements and statements made in our 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 or any of Leap s outside directors. Leap and the remaining individual defendants have moved to dismiss the amended complaint.

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, we 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 our business, financial condition and results of operations.

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Department of Justice Inquiry

On January 7, 2009, we 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, we failed to comply with certain federal postal regulations that required us to update customer mailing addresses in exchange for receiving certain bulk mailing rate discounts. As a result, the DOJ has asserted that we violated the False Claims Act, or FCA, and are 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 we are 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, we are 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 us, none of these other claims is expected to have a material adverse effect on our business, financial condition or results of operations.

Item 1A. Risk Factors.

There have been no material changes to the Risk Factors described under Part I Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2008 filed with the SEC on February 27, 2009, as amended and supplemented by the Risk Factors described under Item 1A. Risk Factors in our Quarterly Report on Form 10-Q for the three months ended March 31, 2009 filed with the SEC on May 11, 2009 and our Quarterly Report on Form 10-Q for the three months ended June 30, 2009 filed with the SEC on August 10, 2009, other than:

changes in the Risk Factors below entitled We Have Made Significant Investment, and May Continue to Invest, in Joint Ventures That We Do Not Control and Your Ownership Interest in Leap Will Be Diluted Upon Issuance of Shares We Have Reserved for Future Issuances, and Future Issuances or Sales of Such Shares May Adversely Affect the Market Price of Leap Common Stock, which have been updated to reflect CSM s exercise of its right to put its entire membership interest in LCW Wireless to Cricket;

changes to the Risk Factor below entitled We Expect to Incur Higher Operating Expenses in Recently Launched Markets, and We May Incur Substantial Costs if We Elect to Build Out Additional New Markets, which has been updated to reflect our current plans with respect to the launch of additional new markets; and

changes in the Risk Factor below entitled Declines in Our Operating Performance Could Ultimately Result in an Impairment of Our Indefinite-Lived Assets, Including Goodwill, or Our Long-Lived Assets, Including Property and Equipment, which has been updated to reflect declines in the trading price of Leap common stock.

Risks Related to Our Business and Industry

We Have Experienced Net Losses, and We May Not Be Profitable in the Future.

We experienced net losses of $65.4 million and $174.0 million for the three and nine months ended September 30, 2009, respectively, and $143.4 million, $76.4 million and $25.5 million for the years ended December 31, 2008, 2007 and 2006, respectively. We may not generate profits in the future on a consistent basis or at all. Our strategic objectives depend on our ability to successfully and cost-effectively operate our existing and newly launched markets and on customer acceptance of our Cricket product offerings. We will experience higher operating expenses after we have launched business expansion efforts, including activities to broaden our product portfolio and to expand and improve our network coverage and capacity. If we fail to achieve consistent profitability, that failure could have a negative effect on our financial condition.

We May Not Be Successful in Increasing Our Customer Base Which Would Negatively Affect Our Business Plans and Financial Outlook.

Our growth on a quarter-by-quarter basis has varied substantially in the past. We believe that this uneven growth generally reflects seasonal trends in customer activity, promotional activity, competition in the wireless telecommunications market, our pace of new market launches and varying national economic conditions. Our current business plans assume that we will continue to increase our customer base over time, providing us with increased economies of scale. Our ability to continue to grow our customer base and achieve the customer penetration levels we currently believe are possible in our markets is subject to a number of risks, including, among other things, increased competition from existing or new competitors, higher than anticipated churn, our inability to increase our network capacity to meet increasing customer demand, unfavorable economic conditions (which may have a disproportionate negative impact on portions of our customer base), changes in the demographics of our markets, adverse changes in the legislative and regulatory environment and other factors that may limit our ability to grow our customer base. If we are unable to attract and retain a growing customer base, our current business plans and financial outlook may be harmed.

General Economic Conditions May Adversely Affect Our Business, Financial Performance or Ability to Obtain Debt or Equity Financing on Reasonable Terms or at All.

Our business and financial performance are sensitive to changes in general economic conditions, including changes in interest rates, consumer credit conditions, consumer debt levels, consumer confidence, rates of inflation (or concerns about deflation), unemployment rates, energy costs and other macro-economic factors. Market and economic conditions have been unprecedented and challenging over the past two years, with tighter credit conditions and a recessionary environment. Continued concerns about the systemic impact of long-term and widespread economic recession, high energy costs, geopolitical issues, the availability and cost of credit and unstable housing and mortgage markets have contributed to increased market volatility and diminished expectations for the economy. In addition, uncertainty and instability in the capital and credit markets and federal government interventions in the U.S. financial system, combined with volatile energy prices, declining business and consumer confidence and increased unemployment, have contributed to significant economic volatility. As a result of these market conditions, the cost and availability of credit has been and may continue to be adversely affected by illiquid credit markets and wider credit spreads. Concern about the stability of the markets and the strength of counterparties has led many lenders and institutional investors to reduce, and in some cases, cease to provide credit to businesses and consumers. These factors have led to a decrease in spending by businesses and consumers alike.

Continued market turbulence and recessionary conditions may materially adversely affect our business and financial performance in a number of ways. Because we do not require customers to sign fixed-term contracts or pass a credit check, our service is available to a broad customer base. As a result, during general economic downturns, including periods of decreased consumer confidence or high unemployment, we may have greater difficulty in gaining new customers within this base for our services and some of our existing customers may be more likely to terminate service due to an inability to pay than the average industry customer. For example, rising unemployment levels have recently impacted our customer base, including, in particular, the lower-income segment of our customer base, decreasing their discretionary income and resulting in higher levels of churn. In addition, continued recessionary conditions and tight credit conditions may adversely impact our vendors, some of which have filed for or may be considering bankruptcy, as well as suppliers and third-party dealers who could experience cash flow or liquidity problems, which could adversely impact our ability to distribute, market or sell our products and services. For example, during the second quarter of 2009, Nortel Networks, which has provided a significant amount of our network infrastructure, agreed to sell substantially all of its network infrastructure business to Ericsson. We also maintain investments in commercial paper and short-term investments in obligations of the U.S. government and government agencies. Volatility and uncertainty in the financial markets could result in losses in these investments. As a result, sustained difficult, or worsening, general economic conditions could have a material adverse effect on our business, financial condition and results of operations.

In addition, general economic conditions have significantly affected the ability of many companies to raise additional funding in the capital markets. For example, U.S. credit markets have experienced significant dislocations and liquidity disruptions which have caused the spreads on prospective debt financings to widen considerably. These circumstances materially impacted liquidity in the debt markets, making financing terms for borrowers less attractive and resulting in the general unavailability of many forms of debt financing. Although conditions in the U.S. credit markets have recently improved, continued uncertainty in the credit markets could negatively impact our ability to access additional debt financing or to refinance existing indebtedness in the future on favorable terms or at all. These general economic conditions have also adversely affected the trading prices of equity securities of many U.S. companies, including Leap. This economic backdrop, combined with intensified competition in the wireless telecommunications industry and other factors, may continue to adversely affect the trading price of Leap common stock and could significantly limit our ability to raise additional capital through the issuance of common stock, preferred stock or other equity securities. If we require additional capital to fund any activities we elect to pursue in addition to our current business expansion efforts and were unable to obtain such capital on terms that we found acceptable or at all, we would likely reduce our investments in such activities or re-direct capital otherwise available for our business expansion efforts. Any of these risks could impair our ability to fund our operations or limit our ability to expand our business, which could have a material adverse effect on our business, financial condition and results of operations.

If We Experience Low Rates of Customer Acquisition or High Rates of Customer Turnover, Our Ability to Become Profitable Will Decrease.

Our rates of customer acquisition and turnover are affected by a number of competitive factors, in addition to the macro-economic factors described above, including the size of our calling areas, network performance and reliability issues, our handset and service offerings (including the ability of customers to cost-effectively roam onto other wireless networks), customer perceptions of our services, customer care quality, wireless number portability and higher deactivation rates among less-tenured customers we gained as a result of our new market launches. We have also experienced an increasing trend of current customers upgrading their handset by buying a new phone, activating a new line of service, and letting their existing service lapse, which trend has resulted in a higher churn rate as these customers are counted as having disconnected service but have actually been retained. Managing these factors and customers expectations is essential in attracting and retaining customers. Although we have implemented programs to attract new customers and address customer turnover, we cannot assure you that these programs or our strategies to address customer acquisition and turnover will be successful. In addition, we and Denali Operations launched a significant number of new Cricket markets in 2008 and through the first half of 2009. 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, although we generally expect that churn will gradually improve as the average tenure of customers in such markets increases. A high rate of customer turnover or low rate of new customer acquisition would reduce revenues and increase the total marketing expenditures required to attract the minimum number of customers required to sustain our business plan which, in turn, could have a material adverse effect on our business, financial condition and results of operations.

We Have Made Significant Investment, and May Continue to Invest, in Joint Ventures That We Do Not Control.

We own a 70.7% non-controlling interest in LCW Wireless, which was awarded a wireless license for the Portland, Oregon market in Auction #58 and to which we contributed, among other things, two wireless licenses in Eugene and Salem, Oregon and related operating assets. CSM has exercised its right to put its entire membership interest in LCW Wireless to Cricket, which upon consummation would have the effect of increasing Cricket s ownership interest to 94.6%. We also own an 82.5% non-controlling interest in Denali, an entity which acquired a wireless license covering the upper mid-west portion of the U.S in Auction #66 through a wholly owned subsidiary. LCW Wireless and Denali acquired their wireless licenses as very small business designated entities under FCC regulations. Our participation in these joint ventures is structured as a non-controlling interest in order to comply with FCC rules and regulations. We have agreements with our joint venture partners in LCW Wireless and Denali that are intended to allow us to actively participate to a limited extent in the development of the business through the joint venture. However, these agreements do not provide us with control over the business strategy, financial goals, build-out plans or other operational aspects of the joint venture. The FCC s rules restrict our ability to acquire controlling interests in such entities during the period that such entities must maintain their eligibility as a designated entity, as defined by the FCC.

The entities or persons that control these joint ventures or any other joint venture in which we may invest may have interests and goals that are inconsistent or different from ours which could result in the joint venture taking actions that negatively impact our business or financial condition. In addition, if any of the other members of a joint venture files for bankruptcy or otherwise fails to perform its obligations or does not manage the joint venture effectively, we may lose our equity investment in, and any present or future opportunity to acquire the assets (including wireless licenses) of, such entity.

The FCC has implemented rule changes aimed at addressing alleged abuses of its designated entity program. While we do not believe that these recent rule changes materially affect our joint ventures with LCW Wireless and Denali, the scope and applicability of these rule changes to these designated entity structures remain in flux, and the changes remain subject to administrative and judicial review. On March 26, 2009, the United States Court of Appeals for the District of Columbia Circuit rejected one of the pending judicial challenges to the designated entity rules. Another appeal of these rules remains pending in the United States Court of Appeals for the Third Circuit and seeks to overturn the results of the AWS and 700 MHz auctions. In addition, third parties and the federal government have challenged certain designated entity structures alleging violations of federal law and seeking monetary damages. We cannot predict the degree to which rule changes, judicial review of the designated entity rules, increased regulatory scrutiny that may follow from these proceedings or third party or government lawsuits will affect our current or future business ventures, licenses acquired in the challenged auctions, or our participation in future FCC spectrum auctions.

We Face Increasing Competition Which Could Have a Material Adverse Effect on Demand for Cricket Service.

The telecommunications industry is very competitive. In general, we compete with national facilities-based wireless providers and their prepaid affiliates or brands, local and regional carriers, non-facilities-based MVNOs, voice-over-internet-protocol service providers and traditional landline service providers, including telephone and cable companies. Some of these competitors are able to offer bundled service offerings which package wireless service offerings with additional service offerings, such as landline phone service, cable or satellite television, media and internet, that we may not be able to duplicate at competitive prices.

Many of these competitors have greater name and brand recognition, larger spectrum holdings, larger footprints, access to greater amounts of capital, greater technical, sales, marketing and distribution resources and established relationships with a larger base of current and potential customers. These advantages may allow our competitors to provide service offerings with better or more extensive features or options than those we currently provide, offer the latest and most popular handsets through exclusive vendor arrangements, market to broader customer segments, offer service over larger geographic areas, or purchase equipment, supplies, handsets and services at lower prices than we can. As handset selection and pricing become increasingly important to customers, our inability to offer customers the latest and most popular handsets as a result of exclusive dealings between handset manufacturers and our larger competitors could put us at a significant competitive disadvantage and make it more difficult for us to attract and retain customers. In addition, some of our competitors are able to offer their customers roaming services at lower rates. As consolidation in the industry creates even larger competitors, advantages that our competitors may have, as well as their bargaining power as wholesale providers of roaming services, may increase. For example, in connection with the offering of our nationwide roaming service, we have encountered problems with certain large wireless carriers in negotiating terms for roaming arrangements that we believe are reasonable, and we believe that consolidation has contributed significantly to such carriers control over the terms and conditions of wholesale roaming services.

The competitive pressures of the wireless telecommunications industry have continued to increase and have caused a number of our competitors to offer competitively-priced unlimited prepaid and postpaid service offerings or increasingly large bundles of minutes of use at increasingly lower prices, which are competing with the predictable and unlimited Cricket Wireless service plans. For example, AT&T, Sprint Nextel, T-Mobile and Verizon Wireless each offer unlimited service offerings. Sprint Nextel also offers a competitively-priced unlimited service offering under its Boost Unlimited brand, which is very similar to our Cricket Wireless service. In addition, T-Mobile recently introduced an unlimited plan that is competitively priced with our Cricket Wireless service. In addition, a number of MVNOs offer or have recently introduced competitively-priced service offerings. For example, Tracfone Wireless recently introduced a wireless offering under its Straight Talk brand using Verizon s wireless network. Virgin Mobile also sells a wireless offering using Sprint Nextel s network, and Sprint Nextel recently announced plans to acquire the company. Moreover, some competitors offer prepaid wireless plans that are being advertised heavily to demographic segments in our current markets and in markets in which we may expand that are strongly represented in Cricket s customer base. These various service offerings described above have presented strong competition in markets in which our offerings overlap.

We may also face additional competition from new entrants in the wireless marketplace, many of whom may have significantly more resources than we do. The FCC is pursuing policies designed to increase the number of wireless licenses and spectrum available for the provision of wireless voice and data services in each of our markets. For example, the FCC has adopted rules that allow the partitioning, disaggregation or leasing of wireless licenses, which may increase the number of our competitors. The FCC has also in recent years allowed satellite operators to use portions of their spectrum for ancillary terrestrial use, and also permitted the offering of broadband services over power lines. In addition, the auction and licensing of new spectrum may result in new competitors and/or allow existing competitors to acquire additional spectrum, which could allow them to offer services that we may not technologically or cost effectively be able to offer with the licenses we hold or to which we have access.

Our ability to remain competitive will depend, in part, on our ability to anticipate and respond to various competitive factors and to keep our costs low. In the third quarter of 2009, we revised a number of our Cricket Wireless service plans to provide additional features previously only available in our higher-priced plans. These changes, which were made in response to the competitive and economic environment, have resulted in lower average monthly revenue per customer. In addition, we revised certain features of our dealer compensation. The evolving competitive landscape has negatively impacted our financial and operating results, and we expect that it may result in more competitive pricing, slower growth, higher costs and increased customer turnover, as well as the possibility of requiring us to further modify our service plans, increase our handset subsidies or increase our dealer compensation in response to competition. Any of these results or actions could have a material adverse effect on our business, financial condition and operating results.

We May Be Unable to Obtain the Roaming Services We Need From Other Carriers to Remain Competitive.

We believe that our customers prefer that we offer roaming services that allow them to make calls automatically using the networks of other carriers when they are outside of their Cricket service area. Many of our competitors have regional or national networks which enable them to offer automatic roaming services to their subscribers at a lower cost than we can offer. We do not have a national network, and we must pay fees to other carriers who provide roaming services to us. We currently rely on roaming agreements with several carriers for the majority of our roaming services. Our roaming agreements generally cover voice but not data services and some of these agreements may be terminated on relatively short notice. In addition, we believe that the rates charged to us by some of these carriers are higher than the rates they charge to certain other roaming partners.

The FCC has adopted a report and order clarifying that commercial mobile radio service providers are required to provide automatic roaming for voice and SMS text messaging services on just, reasonable and non-discriminatory terms. The FCC order, however, does not address roaming for data services nor does it provide or mandate any specific mechanism for determining the reasonableness of roaming rates for voice or SMS text messaging services, and so our ability to obtain roaming services from other carriers at attractive rates remains uncertain. In addition, the FCC order indicates that a host carrier is not required to provide roaming services to another carrier in areas in which that other carrier holds wireless licenses or usage rights that could be used to provide wireless services. Because we and Denali License Sub hold a significant number of spectrum licenses for markets in which service has not yet been launched, we believe that this in-market roaming restriction could significantly and adversely affect our ability to receive roaming services in areas where we hold licenses. We and other wireless carriers have filed petitions with the FCC, asking that the agency reconsider this in-market exception to its roaming order. However, we can provide no assurances as to whether the FCC will reconsider this exception or the timeframe in which it might do so.

In light of the current FCC order, we cannot provide assurances that we will be able to continue to provide roaming services for our customers across the nation or that we will be able to provide such services on a cost effective basis. We may be unable to enter into or maintain roaming arrangements for voice services at reasonable rates, including in areas in which we hold wireless licenses or have usage rights but have not yet constructed wireless facilities, and we may be unable to secure reasonable roaming arrangements for our data services. Our inability to obtain these roaming services on a cost-effective basis may limit our ability to compete effectively for wireless customers, which may increase our churn and decrease our revenues, which in turn could materially adversely affect our business, financial condition and results of operations.

We Restated Certain of Our Prior Consolidated Financial Statements, Which Has Led to Additional Risks and Uncertainties, Including Shareholder Litigation.

As discussed in Note 2 to our consolidated financial statements included in Part II Item 8. Financial Statements and Supplementary Data of our Annual Report on Form 10-K, as amended, for the year ended December 31, 2006, filed with the SEC on December 26, 2007, we restated our consolidated financial statements as of and for the years ended December 31, 2006 and 2005 (including interim periods therein), for the period from August 1, 2004 to December 31, 2004 and for the period from January 1, 2004 to July 31, 2004. In addition, we restated our condensed consolidated financial statements as of and for the quarterly periods ended June 30, 2007 and March 31, 2007. The determination to restate these consolidated financial statements and quarterly condensed consolidated financial statements was made by Leap s Audit Committee upon management s recommendation following the identification of errors related to (i) the timing and recognition of certain service revenues and operating expenses, (ii) the recognition of service revenues for certain customers that voluntarily disconnected service, (iii) the classification of certain components of service revenues, equipment revenues and operating expenses and (iv) the determination of a tax valuation allowance during the second quarter of 2007.

As a result of these events, we became subject to a number of additional risks and uncertainties, including substantial unanticipated costs for accounting and legal fees in connection with or related to the restatement. In particular, two shareholder derivative actions are currently pending, and we are party to a consolidated securities class action lawsuit. The plaintiffs in these lawsuits may make additional claims, expand existing claims and/or expand the time periods covered by the complaints. Other plaintiffs may bring additional actions with other claims based on the restatement. We have incurred and may incur substantial additional defense costs with respect to these claims, regardless of their outcome. Likewise, these claims might cause a diversion of our management s time and attention. If we do not prevail in any such actions, we could be required to pay substantial damages or settlement costs, which could materially adversely affect our business, financial condition and results of operations.

Our Business and Stock Price May Be Adversely Affected If Our Internal Controls Are Not Effective.

Section 404 of the Sarbanes-Oxley Act of 2002 requires companies to conduct a comprehensive evaluation of their internal control over financial reporting. To comply with this statute, each year we are required to document and test our internal control over financial reporting; our management is required to assess and issue a report concerning our internal control over financial reporting; and our independent registered public accounting firm is required to report on the effectiveness of our internal control over financial reporting.

In our quarterly and annual reports (as amended) for the periods ended from December 31, 2006 through September 30, 2008, we reported a material weakness in our internal control over financial reporting which related to the design of controls over the preparation and review of the account reconciliations and analysis of revenues, cost of revenue and deferred revenues, and ineffective testing of changes made to our revenue and billing systems in connection with the introduction or modification of service offerings. As described in Part II Item 9A. Controls and Procedures of our Annual Report on Form 10-K for the year ended December 31, 2008, filed with the SEC on February 27, 2009, we have taken a number of actions to remediate this material weakness, which include reviewing and designing enhancements to certain of our systems and processes relating to revenue recognition and user acceptance testing and hiring and promoting additional accounting personnel with the appropriate skills, training and experience in these areas. Based upon the remediation actions described in Part II Item 9A. Controls and Procedures of our Annual Report on Form 10-K for the year ended December 31, 2008, filed with the SEC on February 27, 2009, management concluded that the material weakness described above was remediated as of December 31, 2008.

In addition, we previously reported that certain material weaknesses in our internal control over financial reporting existed at various times during the period from September 30, 2004 through September 30, 2006. These material weaknesses included excessive turnover and inadequate staffing levels in our accounting, financial reporting and tax departments, weaknesses in the preparation of our income tax provision, and weaknesses in our application of lease-related accounting principles, fresh-start reporting oversight, and account reconciliation procedures.

Although we believe we have taken appropriate actions to remediate the control deficiencies we have identified and to strengthen our internal control over financial reporting, we cannot assure you that we will not discover other material weaknesses in the future. The existence of one or more material weaknesses could result in errors in our financial statements, and substantial costs and resources may be required to rectify these or other internal control deficiencies. If we cannot produce reliable financial reports, investors could lose confidence in our reported financial information, the market price of Leap common stock could decline significantly, we may be unable to obtain additional financing to operate and expand our business, and our business and financial condition could be harmed.

Our Primary Business Strategy May Not Succeed in the Long Term.

A major element of our business strategy is to offer consumers service plans that allow unlimited wireless service from within a Cricket service area for a flat rate without entering into a fixed-term contract or passing a credit check. However, unlike national wireless carriers, we do not currently provide ubiquitous coverage across the U.S. or all major metropolitan centers, and instead have a network footprint covering only the principal population centers of our various markets. This strategy may not prove to be successful in the long term. Some companies that have offered this type of service in the past have been unsuccessful. From time to time, we also evaluate our product and service offerings and the demands of our target customers and may modify, change, adjust or discontinue our product and service offerings or offer new products and services on a permanent, trial or promotional basis. We cannot assure you that these product or service offerings will be successful or prove to be profitable.

We Expect to Incur Higher Operating Expenses in Recently Launched Markets, and We May Incur Substantial Costs if We Elect to Build Out Additional New Markets.

During the first half of 2009, we and Denali Operations launched new markets in Chicago, Philadelphia, Washington, D.C. and Baltimore covering approximately 24 million additional POPs, and we are currently completing the build out of those markets. Our strategic objectives depend on our ability to successfully and cost-effectively operate these and other recently launched markets and on customer acceptance of our Cricket product offerings. We generally expect to incur higher operating expenses as our existing business grows and during the first year after we launch service in new markets. If we fail to achieve consistent profitability in these markets, that failure could have a material adverse effect on our business, financial condition and results of operations.

In addition, we have identified new markets covering approximately 16 million additional POPs that we could elect to launch with Cricket service in the future using our wireless licenses, although we have not established a timeline for any build out or launch of those markets. Large-scale construction projects for the build-out of any new markets will require significant capital expenditures and may suffer cost overruns. Significant capital expenditures and increased operating expenses, including in connection with the build-out and launch of new markets, decrease OIBDA and free cash flow for the periods in which we incur such costs. In addition, the build-out of any new markets may be delayed or adversely affected by a variety of factors, uncertainties and contingencies, such as natural disasters, difficulties in obtaining zoning permits or other regulatory approvals, our relationships with our joint venture partners, and the timely performance by third parties of their contractual obligations to construct portions of the networks.

Portions of the AWS spectrum that we and Denali License Sub 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. We and Denali considered the estimated cost and time-frame required to clear the spectrum prior to placing bids in Auction #66. However, the actual cost of clearing the spectrum in any new markets could exceed our estimated costs. Furthermore, delays in the provision of federal funds to relocate government users, or difficulties in negotiating with incumbent government and commercial licensees, may extend the date by which the auctioned spectrum can be cleared of existing operations, and thus may also delay the date on which we could launch commercial services in any new markets we elect to launch. In addition, to the extent that we or Denali Operations are operating on AWS spectrum and a federal government agency believes that our planned or ongoing operations interfere with its current uses, we may be required to immediately cease using the spectrum in that particular market for a period of time until the interference is resolved. Any temporary or extended shutdown of one of our or Denali Operations wireless networks in a launched market could materially and adversely affect our competitive position and results of operations.

Any failure to complete the build-out of any new markets that we elect to launch with Cricket service in the future on budget or on time could delay the implementation of our clustering and expansion strategies, and could have a material adverse effect on our business, financial condition and results of operations.

If We Are Unable to Manage Our Planned Growth, Our Operations Could Be Adversely Impacted.

We have experienced substantial growth in a relatively short period of time, and we expect to continue to experience growth in the future in our existing and new markets. During the first half of 2009, we and Denali Operations launched new markets in Chicago, Philadelphia, Washington, D.C. and Baltimore covering approximately 24 million additional POPs, and we are currently completing the build out of those markets. In addition, we have identified new markets covering approximately 16 million additional POPs that we could elect to build out and launch with Cricket service in the future using our wireless licenses, although we have not established a timeline for any build out or launch of those markets. The management of our growth will require, among other things, continued development of our financial and management controls and management information systems, stringent control of costs, diligent management of our network infrastructure and its growth, increased spending associated with marketing activities and acquisition of new customers, the ability to attract and retain qualified management personnel and the training of new personnel. Furthermore, the implementation of new or expanded systems or platforms to accommodate our growth, and the transition to such systems or platforms from our existing infrastructure, could result in unpredictable technological or other difficulties. Failure to successfully manage our expected growth and development, to effectively manage recently launched markets or any additional markets we elect to launch in the future, to enhance our processes and management systems or to timely and adequately resolve any such difficulties could have a material adverse effect on our business, financial condition and results of operations.

In addition, our rapid growth and the recent launch of new markets will require continued management and control of our handset inventories. From time to time, we have experienced inventory shortages, most notably with certain of our strongest-selling handsets, including shortages we experienced during the second quarter of 2009. While we have been addressing these shortages, there can be no assurance that we will not experience inventory shortages in the future. Any failure to effectively manage and control our handset inventories could adversely affect our ability to gain new customers and have a material adverse effect on our business, financial condition and results of operations.

Our Significant Indebtedness Could Adversely Affect Our Financial Health and Prevent Us From Fulfilling Our Obligations.

We have now and will continue to have a significant amount of indebtedness. As of September 30, 2009, our total outstanding indebtedness was $2,759.8 million, including $1,100 million of senior secured notes due 2016 and

$1,650.0 million in unsecured senior indebtedness, which comprised $1,100.0 million of senior notes due 2014, $250.0 million of convertible senior notes due 2014 and $300.0 million of senior notes due 2015.

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Our significant indebtedness could have material consequences. For example, it could:

- make it more difficult for us to service all of our debt obligations;
- increase our vulnerability to general adverse economic and industry conditions;
- impair our ability to obtain additional financing in the future for working capital needs, capital expenditures, network build-out and other activities, including acquisitions and general corporate purposes;
- require us to dedicate a substantial portion of our cash flows from operations to the payment of principal and interest on our indebtedness, thereby reducing the availability of our cash flows to fund working capital needs, capital expenditures, acquisitions and other general corporate purposes;
- limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate; and
- place us at a disadvantage compared to our competitors that have less indebtedness.

Any of these risks could impact our ability to fund our operations or limit our ability to expand our business, which could have a material adverse effect on our business, financial condition and results of operations. Furthermore, any significant capital expenditures or increased operating expenses associated with the launch of new product offerings or operating markets will decrease OIBDA and free cash flow for the periods in which we incur such costs, increasing the risk that we may not be able to service our indebtedness.

Despite Current Indebtedness Levels, We Are Permitted to Incur Additional Indebtedness. This Could Further Increase the Risks Associated With Our Leverage.

The terms of the indentures governing Cricket s secured and unsecured senior notes permit us, subject to specified limitations, to incur additional indebtedness, including secured indebtedness. The indenture governing Leap s convertible senior notes does not limit our ability to incur debt.

We may incur additional indebtedness in the future, as market conditions permit, to enhance our liquidity and to provide us with additional flexibility to pursue business expansion efforts, which could consist of debt financing from the public and/or private capital markets. 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.

If new indebtedness is added to our current levels of indebtedness, the related risks that we now face could intensify.

To Service Our Indebtedness and Fund Our Working Capital and Capital Expenditures, We Will Require a Significant Amount of Cash. Our Ability to Generate Cash Depends on Many Factors Beyond Our Control.

Our ability to make payments on our indebtedness will depend upon our future operating performance and on our ability to generate cash flow in the future, which are subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control. We cannot assure you that our business will generate sufficient cash flow from operations, or that future financing will be available to us, in an amount sufficient to enable us to repay or service our indebtedness or to fund our other liquidity needs or at all. If the cash flow from our operating activities is insufficient for these purposes, we may take actions, such as delaying or reducing capital expenditures (including expenditures to launch new product offerings or build out new markets), attempting to restructure or refinance our indebtedness prior to maturity, selling assets or operations or seeking additional equity capital. Any or all of these actions may be insufficient to allow us to service our debt obligations. Further, we may be unable to take any of these actions on commercially reasonable terms, or at all.

We or Our Joint Ventures May Be Unable to Refinance Our Indebtedness.

We or our joint ventures may need to refinance all or a portion of our indebtedness before maturity, including indebtedness under the indentures governing our secured and unsecured senior notes and convertible senior notes. Our $1.1 billion of 9.375% unsecured senior notes and our $250 million of unsecured convertible senior notes are due in 2014, our $300 million of 10.0% unsecured senior notes are due in 2015 and our $1.1 billion of 7.75% senior secured notes are due in 2016. Outstanding borrowings under LCW Operation s 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. There can be no assurance that we or our joint ventures will be able to obtain sufficient funds to enable us to repay or refinance any of our indebtedness on commercially reasonable terms or at all.

Covenants in Our Indentures and Other Credit Agreements or Indentures That We May Enter Into in the Future May Limit Our Ability to Operate Our Business.

The indentures governing Cricket s secured and unsecured senior notes contain covenants that restrict the ability of Leap, Cricket and the subsidiary guarantors to make distributions or other payments to our investors or creditors until we satisfy certain financial tests or other criteria. In addition, these indentures include covenants restricting, among other things, the ability of Leap, Cricket and their restricted subsidiaries to:

- incur additional indebtedness;
- 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 or otherwise dispose of all or substantially all of our assets;
- enter into transactions with affiliates; and
- make acquisitions or merge or consolidate with another entity.

The restrictions in the indentures governing Cricket s secured and unsecured senior notes could limit our ability to make borrowings, obtain debt financing, repurchase stock, refinance or pay principal or interest on our outstanding indebtedness, complete acquisitions for cash or debt or react to changes in our operating environment. Any credit agreement or indenture that we may enter into in the future may have similar restrictions.

Under the indentures governing our secured and unsecured senior notes and convertible senior notes, if certain change of control events occur, each holder of notes may require us to repurchase all of such holder s notes at a purchase price equal to 101% of the principal amount of secured or unsecured senior notes, or 100% of the principal amount of convertible senior notes, plus accrued and unpaid interest (and in the case of our senior secured notes, additional interest, if any).

If we default under any of the indentures governing our secured or unsecured senior notes or convertible senior notes because of a covenant breach or otherwise, all outstanding amounts thereunder could become immediately due and payable. Our failure to timely file our Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2007 constituted a default under the indenture governing Cricket s unsecured senior notes due 2014. We cannot assure you that we will be able to obtain a waiver should a default occur in the future. Any acceleration of amounts due would have a material adverse effect on our liquidity and financial condition, and we cannot assure you that we would have sufficient funds to repay all of the outstanding amounts under the indentures governing our secured and unsecured senior notes and convertible senior notes.

A Significant Portion of Our Assets Consists of Goodwill and Intangible Assets.

As of September 30, 2009, 44.2% of our assets consisted of goodwill, intangible assets and wireless licenses. The value of our assets, and in particular, our intangible assets, will depend on market conditions, the availability of buyers and similar factors. By their nature, our intangible assets may not have a readily ascertainable market value or may not be readily saleable or, if saleable, there may be substantial delays in their liquidation. For example, prior FCC approval is required in order for us to sell, or for any remedies to be exercised by our lenders with respect to, our wireless licenses, and obtaining such approval could result in significant delays and reduce the proceeds obtained from the sale or other disposition of our wireless licenses.

The Wireless Industry is Experiencing Rapid Technological Change, Which May Require Us to Significantly Increase Capital Investment, and We May Lose Customers If We Fail to Keep Up With These Changes.

The wireless communications industry continues to experience significant technological change, as evidenced by the ongoing improvements in the capacity and quality of digital technology, the development and commercial acceptance of wireless data services, shorter development cycles for new products and enhancements and changes in end-user requirements and preferences. Our continued success will depend, in part, on our ability to anticipate or adapt to technological changes and to offer, on a timely basis, services that meet customer demands.

In the future, competitors may seek to provide competing wireless telecommunications service through the use of developing 4G technologies, such as WiMax and Long Term Evolution, or LTE. We are currently conducting a limited technical trial of LTE technology. We cannot predict, however, which of many possible future technologies, products or services will be important to maintain our competitive position or what expenditures we will be required to make in order to develop and provide these technologies, products and services. The cost of implementing or competing against future technological innovations may be prohibitive to us, and we may lose customers if we fail to keep up with these changes. For example, we have expended a substantial amount of capital to upgrade our network with EvDO technology to offer advanced data services. In addition, we may be required to acquire additional spectrum to deploy these new technologies, which we cannot guarantee would be available to us at a reasonable cost, on a timely basis or at all. There are also risks that current or future versions of the wireless technologies and evolutionary path that we have selected or may select may not be demanded by customers or provide the advantages that we expect. If such upgrades, technologies or services do not become commercially acceptable, our revenues and competitive position could be materially and adversely affected. We cannot assure you that there will be widespread demand for advanced data services or that this demand will develop at a level that will allow us to earn a reasonable return on our investment. In addition, there are risks that other wireless carriers on whose networks our customers currently roam may change their technology to other technologies that are incompatible with ours. As a result, the ability of our customers to roam on such carriers wireless networks could be adversely affected. If these risks materialize, our business, financial condition or results of operations could be materially adversely affected. Further, we may not be able to negotiate cost-effective data roaming agreements on 4G or other data networks, and we are not able to assure you that customer handset and data devices that operate on 4G or other data networks will be available at costs that will make them attractive to customers.

In addition, CDMA2000-based infrastructure networks serve a relatively small minority of wireless users worldwide and could become less popular in the future, which could raise the cost to us of network equipment and handsets that use that technology relative to the cost of handsets and network equipment that utilize other technologies.

The Loss of Key Personnel and Difficulty Attracting and Retaining Qualified Personnel Could Harm Our Business.

We believe our success depends heavily on the contributions of our employees and on attracting, motivating and retaining our officers and other management and technical personnel. We do not, however, generally provide employment contracts to our employees. If we are unable to attract and retain the qualified employees that we need, our business may be harmed.

We have experienced higher than normal employee turnover in the past, in part because of our bankruptcy, including turnover of individuals at the most senior management levels. In addition, our business is managed by a small number of key executive officers, including our CEO, S. Douglas Hutcheson. In September 2007, Amin Khalifa resigned as our executive vice president and CFO, and the board of directors appointed Mr. Hutcheson to serve as acting CFO as we searched for a successor to Mr. Khalifa. We announced the appointment of Walter Z. Berger as our executive vice president and CFO in June 2008. In February 2008, Grant Burton, who had served as chief accounting officer and controller since June 2005, assumed a new role as vice president, financial systems and processes. Jeffrey E. Nachbor, joined the company in April 2008 as our senior vice president, financial operations, and was appointed as our chief accounting officer in May 2008. As a result, several members of our senior management, including those responsible for our finance and accounting functions, have either been hired or appointed to new positions over a relatively short period of time, and it may take time to fully integrate these individuals into their new roles. The loss of key individuals in the future may have a material adverse impact on our ability to effectively manage and operate our business. In addition, we may have difficulty attracting and retaining key personnel in future periods, particularly if we were to experience poor operating or financial performance.

Risks Associated With Wireless Handsets Could Pose Product Liability, Health and Safety Risks That Could Adversely Affect Our Business.

We do not manufacture handsets or other equipment sold by us and generally rely on our suppliers to provide us with safe equipment. Our suppliers are required by applicable law to manufacture their handsets to meet certain governmentally imposed safety criteria. However, even if the handsets we sell meet the regulatory safety criteria, we could be held liable with the equipment manufacturers and suppliers for any harm caused by products we sell if such products are later found to have design or manufacturing defects. We generally have indemnification agreements with the manufacturers who supply us with handsets to protect us from direct losses associated with product liability, but we cannot guarantee that we will be fully protected against all losses associated with a product that is found to be defective.

Media reports have suggested that the use of wireless handsets may be linked to various health concerns, including cancer, and may interfere with various electronic medical devices, including hearing aids and pacemakers. Certain class action lawsuits have been filed in the industry claiming damages for alleged health problems arising from the use of wireless handsets. In addition, interest groups have requested that the FCC investigate claims that wireless technologies pose health concerns and cause interference with airbags, hearing aids and other medical devices. The media has also reported incidents of handset battery malfunction, including reports of batteries that have overheated. Malfunctions have caused at least one major handset manufacturer to recall certain batteries used in its handsets, including batteries in a handset sold by Cricket and other wireless providers.

Concerns over possible health and safety risks associated with radio frequency emissions and defective products may discourage the use of wireless handsets, which could decrease demand for our services, or result in regulatory restrictions or increased requirements on the location and operation of cell sites, which could increase our operating expenses. Concerns over possible safety risks could decrease the demand for our services. For example, in early 2008, a technical defect was discovered in one of our manufacturer s handsets which appeared to prevent a portion of 911 calls from being heard by the operator. After learning of the defect, we instructed our retail locations to temporarily cease selling the handsets, notified our customers of the matter and directed them to bring their handsets into our retail locations to receive correcting software. If one or more Cricket customers were harmed by a defective product provided to us by a manufacturer and subsequently sold in connection with our services, our ability to add and maintain customers for Cricket service could be materially adversely affected by negative public reactions.

There also are some safety risks associated with the use of wireless handsets while operating vehicles or equipment. Concerns over these safety risks and the effect of any legislation that has been and may be adopted in response to these risks could limit our ability to sell our wireless service.

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We Rely Heavily on Third Parties to Provide Specialized Services; a Failure by Such Parties to Provide the Agreed Upon Products or Services Could Materially Adversely Affect Our Business, Results of Operations and Financial Condition.

We depend heavily on suppliers and contractors with specialized expertise in order for us to efficiently operate our business. In the past, our suppliers, contractors and third-party retailers have not always performed at the levels we expect or at the levels required by their contracts. If key suppliers, contractors, service providers or third-party retailers fail to comply with their contracts, fail to meet our performance expectations or refuse or are unable to supply or provide services to us in the future, our business could be severely disrupted. Generally, there are multiple sources for the types of products and services we purchase or use. However, some suppliers and contractors are the exclusive sources of specific products and services that we rely upon for billing, customer care, sales, accounting and other areas in our business. For example, in December 2008 we entered into a long-term, exclusive services agreement with Convergys Corporation for the implementation and ongoing management of a new billing system. In addition, we currently rely on a limited number of third-party vendors to provide customer care services, and we intend to transition those services to multiple vendors later in 2009. We also use a limited number of vendors to provide payment processing services, and in a significant number of our markets, the majority of these services may be provided by a single vendor. In addition, a limited number of vendors currently provide a majority of our voice and data communications transport services. Because of the costs and time lags that can be associated with transitioning from one supplier or service provider to another, our business could be substantially disrupted if we were required to replace the products or services of one or more major suppliers or service providers with products or services from another source, especially if the replacement became necessary on short notice. Any such disruption could have a material adverse effect on our business, results of operations and financial condition.

System Failures, Security Breaches, Business Disruptions and Unauthorized Use or Interference with our Network Could Result in Higher Churn, Reduced Revenue and Increased Costs, and Could Harm Our Reputation.

Our technical infrastructure (including our network infrastructure and ancillary functions supporting our network such as service activation, billing and customer care) is vulnerable to damage or interruption from technology failures, power surges or outages, natural disasters, fires, human error, terrorism, intentional wrongdoing or similar events. Unanticipated problems at our facilities or with our technical infrastructure, system or equipment failures, hardware or software failures or defects, computer viruses or hacker attacks could affect the quality of our services and cause network service interruptions. Unauthorized access to or use of customer or account information, including credit card or other personal data, could result in harm to our customers and legal actions against us, and could damage our reputation. In addition, earthquakes, floods, hurricanes, fires and other unforeseen natural disasters or events could materially disrupt our business operations or the provision of Cricket service in one or more markets. For example, during the third quarter of 2008, our customer acquisitions, cost of service and revenues in certain markets were adversely affected by Hurricane Ike and related weather systems. Our business operations in markets near the Mexican border or elsewhere could be impacted if the 2009 outbreak of H1N1 Flu, or swine flu, were to worsen and potentially cause us or any of our dealers or other distributors to temporarily close retail outlets, which could potentially affect the volume of customer traffic. Any costs we incur to restore, repair or replace our network or technical infrastructure, and any costs associated with detecting, monitoring or reducing the incidence of unauthorized use, may be substantial and increase our cost of providing service. In addition, we are in the process of upgrading some of our internal business systems, and we cannot assure you that we will not experience delays or interruptions while we transition our data and existing systems onto our new systems. In December 2008, we entered into a long-term, exclusive services agreement with Convergys Corporation for the implementation and ongoing management of a new billing system. To help facilitate the transition of customer billing from our current vendor, VeriSign, Inc., to Convergys, we acquired VeriSign s billing system software and simultaneously entered into a transition services agreement to enable Convergys to provide us with billing services using the existing VeriSign software until the conversion to the new system is complete. We also intend to implement a new inventory management system. Any failure in or interruption of systems that we or third parties maintain to support ancillary functions, such as billing, point of sale, inventory management, customer care and financial reporting, could materially impact our ability to timely and accurately record, process and report information important to our business. If any of the above events

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were to occur, we could experience higher churn, reduced revenues and increased costs, any of which could harm our reputation and have a material adverse effect on our business, financial condition or results of operations.

We May Not Be Successful in Protecting and Enforcing Our Intellectual Property Rights.

We rely on a combination of patent, service mark, trademark, and trade secret laws and contractual restrictions to establish and protect our proprietary rights, all of which only offer limited protection. We endeavor to enter into agreements with our employees and contractors and agreements with parties with whom we do business in order to limit access to and disclosure of our proprietary information. Despite our efforts, the steps we have taken to protect our intellectual property may not prevent the misappropriation of our proprietary rights. Moreover, others may independently develop processes and technologies that are competitive to ours. The enforcement of our intellectual property rights may depend on any legal actions that we undertake against such infringers being successful, but we cannot be sure that any such actions will be successful, even when our rights have been infringed.

We cannot assure you that our pending, or any future, patent applications will be granted, that any existing or future patents will not be challenged, invalidated or circumvented, that any existing or future patents will be enforceable, or that the rights granted under any patent that may issue will provide us with any competitive advantages.

In addition, we cannot assure you that any trademark or service mark registrations will be issued with respect to pending or future applications or that any registered trademarks or service marks will be enforceable or provide adequate protection of our brands. Our inability to secure trademark or service mark protection with respect to our brands could have a material adverse effect on our business, financial condition and results of operations.

We and Our Suppliers May Be Subject to Claims of Infringement Regarding Telecommunications Technologies That Are Protected By Patents and Other Intellectual Property Rights.

Telecommunications technologies are protected by a wide array of patents and other intellectual property rights. As a result, third parties have asserted and may in the future assert infringement claims against us or our suppliers based on our or their general business operations, the equipment, software or services that we or they use or provide, or the specific operation of our wireless networks. For example, see Part II Item 1. Legal Proceedings Patent Litigation of this report for a description of certain patent infringement lawsuits that have been brought against us. Due in part to the growth and expansion of our business operations, we have become subject to increased amounts of litigation, including disputes alleging patent infringement. If plaintiffs in any patent litigation matters brought against us were to prevail, we could be required to pay substantial damages or settlement costs, which could have a material adverse effect on our business, financial condition and results of operations.

We generally have indemnification agreements with the manufacturers, licensors and suppliers who provide us with the equipment, software and technology that we use in our business to help protect us against possible infringement claims. However, depending on the nature and scope of a possible claim, we may not be entitled to seek indemnification from the manufacturer, vendor or supplier under the terms of the agreement. In addition, to the extent that we may be entitled to seek indemnification under the terms of an agreement, we cannot guarantee that the financial condition of an indemnifying party will be sufficient to protect us against all losses associated with infringement claims or that we would be fully indemnified against all possible losses associated with a possible claim. In addition, our suppliers may be subject to infringement claims that could prevent or make it more expensive for them to supply us with the products and services we require to run our business, which could have the effect of slowing or limiting our ability to introduce products and services to our customers. Moreover, we may be subject to claims that products, software and services provided by different vendors which we combine to offer our services may infringe the rights of third parties, and we may not have any indemnification from our vendors for these claims. Whether or not an infringement claim against us or a supplier is valid or successful, it could materially adversely affect our business, financial condition or results of operations by diverting management attention, involving us in costly and time-consuming litigation, requiring us to enter into royalty or licensing agreements (which may not be available on acceptable terms, or at all) or requiring us to redesign our business operations or systems to avoid claims of infringement. In addition, infringement claims against our suppliers could also require us to purchase products and services at higher prices or from different suppliers and could adversely affect our business by delaying our ability to offer certain products and services to our customers.

Regulation by Government Agencies May Increase Our Costs of Providing Service or Require Us to Change Our Services.

The FCC regulates the licensing, construction, modification, operation, ownership, sale and interconnection of wireless communications systems, as do some state and local regulatory agencies. We cannot assure you that the FCC or any state or local agencies having jurisdiction over our business will not adopt regulations or take other enforcement or other actions that would adversely affect our business, impose new costs or require changes in current or planned operations. In addition, state regulatory agencies are increasingly focused on the quality of service and support that wireless carriers provide to their customers and several agencies have proposed or enacted new and potentially burdensome regulations in this area.

We also cannot assure you that the Communications Act, from which the FCC obtains its authority, will not be further amended in a manner that could be adverse to us. For example, the FCC has implemented rule changes and sought comment on further rule changes focused on addressing alleged abuses of its designated entity program, which gives certain categories of small businesses preferential treatment in FCC spectrum auctions based on size. In that proceeding, the FCC has re-affirmed its goals of ensuring that only legitimate small businesses benefit from the program, and that such small businesses are not controlled or manipulated by larger wireless carriers or other investors that do not meet the small business qualification tests. The scope and applicability of these rule changes to these designated entity structures remain in flux, and the changes remain subject to administrative and judicial review. On March 26, 2009, the United States Court of Appeals for the District of Columbia Circuit rejected one of the pending judicial challenges to the designated entity rules, and another appeal of these rules remains pending in the United States Court of Appeals for the Third Circuit that seeks to overturn the results of the AWS and 700 MHz auctions. In addition, third parties and the federal government have challenged certain designated entity structures alleging violations of federal law and seeking monetary damages. We cannot predict the degree to which rule changes, judicial review of the designated entity rules, increased regulatory scrutiny that may follow from these proceedings or third party or government lawsuits will affect our current or future business ventures, licenses acquired in the challenged auctions, or our participation in future FCC spectrum auctions.

The Digital Millennium Copyright Act, or DMCA, prohibits the circumvention of technological measures employed to protect a copyrighted work, or access control. However, under the DMCA, the Copyright Office of the Library of Congress, or the Copyright Office, has the authority to exempt for three years certain activities from copyright liability that otherwise might be prohibited by that statute. In November 2006, the Copyright Office granted an exemption to the DMCA to allow circumvention of software locks and other firmware that prohibit a wireless handset from connecting to a wireless network when such circumvention is accomplished for the sole purpose of lawfully connecting the wireless handset to another wireless telephone network. This exemption was due to expire on October 27, 2009 and has been temporarily extended for several weeks. The DMCA copyright exemption facilitates our current practice of allowing customers to bring in unlocked, or reflashed, phones that they already own and may have used with another wireless carrier, and activate them on our network. We and other carriers have asked the Copyright Office to extend the current or substantially similar exemption for another three-year period. However, we are unable to predict the outcome of the Copyright Office s determination to continue the exemption for this time period or the effect that a Copyright Office decision not to extend the exemption might have on our business. To the extent that the Copyright Office determines not to extend this exemption for an extended period of time and this prevents us from activating reflashed handsets on our network, this could have a material adverse impact on our business, financial condition and results of operations.

Under existing law, no more than 20% of an FCC licensee s capital stock may be owned, directly or indirectly, or voted by non-U.S. citizens or their representatives, by a foreign government or its representatives or by a foreign corporation. If an FCC licensee is controlled by another entity (as is the case with Leap s ownership and control of subsidiaries that hold FCC licenses), up to 25% of that entity s capital stock may be owned or voted by non-U.S. citizens or their representatives, by a foreign government or its representatives or by a foreign corporation. Foreign ownership above the 25% holding company level may be allowed if the FCC finds such higher levels consistent with the public interest. The FCC has ruled that higher levels of foreign ownership, even up to 100%, are presumptively consistent with the public interest with respect to investors from certain nations. If our foreign ownership were to exceed the permitted level, the FCC could revoke our wireless licenses, which would have a material adverse effect on our business, financial condition and results of operations. Although we could seek a declaratory ruling from the FCC allowing the foreign ownership or could take other actions to reduce our foreign ownership percentage in order to avoid the loss of our licenses, we cannot assure you that we would be able to obtain such a ruling or that any other actions we may take would be successful.

We also are subject, or potentially subject, to numerous additional rules and requirements, including universal service obligations; number portability requirements; number pooling rules; rules governing billing, subscriber privacy and customer proprietary network information; roaming obligations; rules that require wireless service providers to configure their networks to facilitate electronic surveillance by law enforcement officials; rate averaging and integration requirements; rules governing spam, telemarketing and truth-in-billing; and rules requiring us to offer equipment and services that are accessible to and usable by persons with disabilities, among others. There also pending proceedings exploring the imposition of various types of nondiscrimination, open access and broadband management obligations on our handsets and networks; the prohibition of handset exclusivity; the possible re-imposition of bright-line spectrum aggregation requirements; further regulation of special access used for wireless backhaul services; and the effects of the siting of communications towers on migratory birds, among others. Some of these requirements and pending proceedings (of which the foregoing examples are not an exhaustive list) pose technical and operational challenges to which we, and the industry as a whole, have not yet developed clear solutions. These requirements generally are the subject of pending FCC or judicial proceedings, and we are unable to predict how they may affect our business, financial condition or results of operations.

Our operations are subject to various other laws and regulations, including those regulations promulgated by the Federal Trade Commission, the Federal Aviation Administration, the Environmental Protection Agency, the Occupational Safety and Health Administration, other federal agencies and state and local regulatory agencies and legislative bodies. Adverse decisions or regulations of these regulatory bodies could negatively impact our operations and costs of doing business. Because of our smaller size, legislation or governmental regulations and orders can significantly increase our costs and affect our competitive position compared to other larger telecommunications providers. We are unable to predict the scope, pace or financial impact of regulations and other policy changes that could be adopted by the various governmental entities that oversee portions of our business.

If Call Volume or Wireless Broadband Usage Exceeds Our Expectations, Our Costs of Providing Service Could Increase, Which Could Have a Material Adverse Effect on Our Operating Expenses.

Cricket Wireless customers generally use their handsets for voice calls for an average of approximately 1,500 minutes per month, and some markets experience substantially higher call volumes. Our Cricket Wireless service plans bundle certain features, long distance and unlimited service in Cricket calling areas for a fixed monthly fee to more effectively compete with other telecommunications providers. We also offer Cricket Broadband, our unlimited mobile broadband service, and Cricket PAYGo, a pay-as-you-go unlimited prepaid wireless service.

If customers exceed expected usage for our voice or mobile broadband services, we could face capacity problems and our costs of providing the services could increase. Although we own less spectrum in many of our markets than our competitors, we seek to design our network to accommodate our expected high rates of usage of voice and mobile broadband services, and we consistently assess and try to implement technological improvements to increase the efficiency of our wireless spectrum. However, if future wireless use by Cricket customers exceeds the capacity of our network, service quality may suffer. We may be forced to raise the price of our voice or mobile broadband services to reduce volume, limit data quantities or speeds, or otherwise limit the number of new customers, or incur substantial capital expenditures to improve network capacity or quality.

We May Be Unable to Acquire Additional Spectrum in the Future at a Reasonable Cost or on a Timely Basis.

Because we offer unlimited calling services for a fixed rate, our customers average minutes of use per month is substantially above U.S. averages. In addition, customer usage of our Cricket Broadband service has been significant. We intend to meet demand for our wireless services by utilizing spectrally efficient technologies. Despite our recent spectrum purchases, there may come a point where we need to acquire additional spectrum in order to maintain an acceptable grade of service or provide new services to meet increasing customer demands. For example, Denali Operations currently operates on 10 MHz of spectrum in its newly launched Chicago market. In the future, we may be required to acquire additional spectrum in this and other of our markets to deploy new technologies, such as WiMax or LTE. In addition, we also may acquire additional spectrum in order to enter new strategic markets. However, we cannot assure you that we will be able to acquire additional spectrum at auction or in the after-market at a reasonable cost or that additional spectrum would be made available by the FCC on a timely basis. In addition, the FCC may impose conditions on the use of new wireless broadband mobile spectrum, such as heightened build-out requirements or open access requirements, that may make it less attractive or economical for us. If such additional spectrum is not available to us when required on reasonable terms or at a reasonable cost, our business, financial condition and results of operations could be materially adversely affected.

Our Wireless Licenses are Subject to Renewal and May Be Revoked in the Event that We Violate Applicable Laws.

Our existing wireless licenses are subject to renewal upon the expiration of the 10-year or 15-year period for which they are granted, which renewal period commenced for some of our PCS wireless licenses in 2006. The FCC will award renewal expectancy to a wireless licensee that timely files a renewal application, has provided substantial service during its past license term and has substantially complied with applicable FCC rules and policies and the Communications Act. Historically, the FCC has approved our license renewal applications. However, the Communications Act provides that licenses may be revoked for cause and license renewal applications denied if the FCC determines that a renewal would not serve the public interest. In addition, if we fail to timely file to renew any wireless license, or fail to meet any regulatory requirements for renewal, including construction and substantial service requirements, we could be denied a license renewal. Many of our wireless licenses are subject to interim or final construction requirements and there is no guarantee that the FCC will find our construction, or the construction of prior licensees, sufficient to meet the build-out or renewal requirements. FCC rules provide that applications competing with a license renewal application may be considered in comparative hearings, and establish the qualifications for competing applications and the standards to be applied in hearings. We cannot assure you that the FCC will renew our wireless licenses upon their expiration. If any of our wireless licenses were to be revoked or not renewed upon expiration, we would not be permitted to provide services under that license, which could have a material adverse effect on our business, results of operations and financial condition.

Future Declines in the Fair Value of Our Wireless Licenses Could Result in Future Impairment Charges.

As of September 30, 2009, the carrying value of our wireless licenses and those of Denali License Sub and LCW License was approximately $1.9 billion. During the nine months ended September 30, 2009, we recorded an impairment charge of $0.6 million, and during the years ended December 31, 2008, 2007 and 2006, we recorded impairment charges of $0.2 million, $1.0 million and $7.9 million, respectively.

The market values of wireless licenses have varied dramatically over the last several years, and may vary significantly in the future. Valuation swings could occur for a variety of reasons relating to supply and demand, including:

- consolidation in the wireless industry allows or requires carriers to sell significant portions of their wireless spectrum holdings;

a sudden large sale of spectrum by one or more wireless providers occurs; or

market prices decline as a result of the sale prices in FCC auctions.

In addition, the price of wireless licenses could decline as a result of the FCC s pursuit of policies designed to increase the number of wireless licenses available in each of our markets. For example, during the past two years, the FCC auctioned additional spectrum in the 1700 MHz to 2100 MHz band in Auction #66 and the 700 MHz band in Auction #73, and has announced that it intends to auction additional spectrum in the 2.5 GHz band. If the market value of wireless licenses were to decline significantly, the value of our wireless licenses could be subject to noncash impairment charges.

We assess potential impairments to our indefinite-lived intangible assets, including wireless licenses, annually and when there is evidence that events or changes in circumstances indicate that an impairment condition may exist. We conduct our annual tests for impairment of our wireless licenses during the third quarter of each year. Estimates of the fair value of our wireless licenses are based primarily on available market prices, including successful bid prices in FCC auctions and selling prices observed in wireless license transactions, pricing trends among historical wireless license transactions, our spectrum holdings within a given market relative to other carriers holdings and qualitative demographic and economic information concerning the areas that comprise our markets. A significant impairment loss could have a material adverse effect on our operating income and on the carrying value of our wireless licenses on our balance sheet.

Declines in Our Operating Performance Could Ultimately Result in an Impairment of Our Indefinite-Lived Assets, Including Goodwill, or Our Long-Lived Assets, Including Property and Equipment.

We assess potential impairments to our long-lived assets, including property and equipment and certain intangible assets, when there is evidence that events or changes in circumstances indicate that the carrying value may not be recoverable. We assess potential impairments to indefinite-lived intangible assets, including goodwill and wireless licenses, annually and when there is evidence that events or changes in circumstances indicate that an impairment condition may exist. General economic conditions in the U.S. have recently adversely impacted the trading prices of securities of many U.S. companies, including Leap, due to concerns regarding recessionary economic conditions, tighter credit conditions, the subprime lending and financial crisis, volatile energy costs, a substantial slowdown in economic activity, decreased consumer confidence and other factors. In addition, the trading prices of the securities of telecommunications companies, including Leap, have been highly volatile and have been adversely affected by other factors, including intensified competition in wireless markets. Since September 30, 2009, the closing price of Leap common stock has ranged from a high of $17.42 per share to a low of $13.03 per share, and the closing price of Leap common stock was $13.03 per share on November 5, 2009. If the trading price of Leap common stock were to continue to be adversely affected for a sustained period of time, due to competition in the wireless telecommunications industry, significant changes in our financial or operating performance, unfavorable economic conditions or other factors, the decline could require us to recognize a material non-cash impairment charge that could reduce all or a portion of the carrying value of our goodwill of $430.1 million. Any significant reduction in the carrying value of our goodwill, wireless licenses and/or our long-lived assets could have a material adverse effect on our operating results.

We May Incur Higher Than Anticipated Intercarrier Compensation Costs.

When our customers use our service to call customers of other carriers, we are required under the current intercarrier compensation scheme to pay the carrier that serves the called party, and any intermediary or transit carrier, for the use of their networks. Similarly, when a customer of another carrier calls one of our customers, that carrier is required to pay us. While in most cases we have been successful in negotiating agreements with other carriers that impose reasonable reciprocal compensation arrangements, some carriers have claimed a right to unilaterally impose what we believe to be unreasonably high charges on us. The FCC is actively considering possible regulatory approaches to address this situation but we cannot assure you that any FCC rules or regulations will be beneficial to us. The enactment of adverse FCC rules or regulations or any FCC inaction could result in carriers successfully collecting higher intercarrier fees from us, which could materially adversely affect our business, financial condition and results of operations.

The FCC also is considering making various significant changes to the intercarrier compensation scheme to which we are subject. We cannot predict with any certainty the likely outcome of this FCC proceeding. Some of the alternatives that are under active consideration by the FCC could severely increase the interconnection costs we pay. If we are unable to cost-effectively provide our products and services to customers, our competitive position and business prospects could be materially adversely affected.

If We Experience High Rates of Credit Card, Subscription or Dealer Fraud, Our Ability to Generate Cash Flow Will Decrease.

Our operating costs can increase substantially as a result of customer credit card, subscription or dealer fraud. We have implemented a number of strategies and processes to detect and prevent efforts to defraud us, and we believe that our efforts have substantially reduced the types of fraud we have identified. However, if our strategies are not successful in detecting and controlling fraud, the resulting loss of revenue or increased expenses could have a material adverse impact on our financial condition and results of operations.

Risks Related to Ownership of Leap Common Stock

Our Stock Price May Be Volatile, and You May Lose All or Some of Your Investment.

The trading prices of the securities of telecommunications companies have been highly volatile. Accordingly, the trading price of Leap common stock has been, and is likely to continue to be, subject to wide fluctuations. Factors affecting the trading price of Leap common stock may include, among other things:

- variations in our operating results or those of our competitors;
- announcements of technological innovations, new services or service enhancements, strategic alliances or significant agreements by us or by our competitors;
- entry of new competitors into our markets or changes in the product and service offerings of our competitors;
- significant developments with respect to intellectual property, securities or related litigation;
- announcements of and bidding in auctions for new spectrum;
- recruitment or departure of key personnel;
- changes in the estimates of our operating results or changes in recommendations by any securities analysts that elect to follow Leap common stock;
- any default under any of the indentures governing our secured or unsecured senior notes or convertible senior notes because of a covenant breach or otherwise; and
- market conditions in our industry and the economy as a whole.

In addition, general economic conditions in the U.S. have recently adversely impacted the trading prices of securities of many U.S. companies, including Leap, due to concerns regarding recessionary economic conditions, tighter credit conditions, the subprime lending and financial crisis, volatile energy costs, a substantial slowdown in economic activity, decreased consumer confidence and other factors. The trading price of Leap common stock may continue to be adversely affected if investors have concerns that our business, financial condition or results of operations will be negatively impacted by these negative general economic conditions.

We May Elect to Raise Additional Equity Capital Which May Dilute Existing Stockholders.

During the second quarter of 2009 we sold 7,000,000 shares of Leap common stock in an underwritten public offering. We may raise additional capital in the future, as market conditions permit, to enhance our liquidity and to provide us with additional flexibility to pursue business expansion efforts. Any additional capital we raise may be significant and could consist of debt, convertible debt or equity financing from the public and/or private capital markets. 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. To the extent that we elect to raise equity capital, this financing may not be available in sufficient amounts or on terms acceptable to us and may be dilutive to existing stockholders. In addition, these sales could reduce the trading price of Leap common stock and impede our ability to raise future capital.

Your Ownership Interest in Leap Will Be Diluted Upon Issuance of Shares We Have Reserved for Future Issuances, and Future Issuances or Sales of Such Shares May Adversely Affect the Market Price of Leap Common Stock.

As of October 30, 2009, 77,402,588 shares of Leap common stock were issued and outstanding, and 6,746,872 additional shares of Leap common stock were reserved for issuance, including 4,752,961 shares reserved for issuance upon the exercise of outstanding stock options under our 2004 Stock Option, Restricted Stock and Deferred Stock Unit Plan, as amended, 1,133,331 shares of common stock available for future issuance under our 2004 Stock Option, Restricted Stock and Deferred Stock Unit Plan, 235,000 shares reserved for issuance upon the exercise of outstanding stock options under our 2009 Employment Inducement Equity Incentive Plan, 13,500 shares of common stock available for future issuance under our 2009 Employment Inducement Equity Incentive Plan, and 612,080 shares available for future issuance under our Employee Stock Purchase Plan.

Leap has also reserved up to 4,761,000 shares of its common stock for issuance upon conversion of its $250 million in aggregate principal amount of convertible senior notes due 2014. 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. At an applicable stock price of approximately $93.21 per share, the number of shares of common stock issuable upon full conversion of the convertible senior notes would be 2,682,250 shares. Upon the occurrence of a make-whole fundamental change of Leap under the indenture, under certain circumstances the maximum number of shares of common stock issuable upon full conversion of the convertible senior notes would be 4,761,000 shares.

In addition, Leap has reserved five percent of its outstanding shares, which represented 3,870,129 shares of common stock as of October 30, 2009, for potential issuance to CSM on the exercise of CSM s option to put its entire equity interest in LCW Wireless to Cricket. Under the LCW LLC Agreement, the purchase price for CSM s equity interest is 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 adjusted EBITDA and applied to LCW Wireless adjusted EBITDA to impute an enterprise value and equity value for LCW Wireless. Cricket may satisfy the put price either in cash or in Leap common stock, or a combination thereof, as determined by Cricket in its discretion. If Cricket elects to satisfy its put obligations to CSM with Leap common stock, the obligations of the parties are conditioned upon the block of Leap common stock issuable to CSM not constituting more than five percent of Leap s outstanding common stock at the time of issuance. Dilution of the outstanding number of shares of Leap common stock could adversely affect prevailing market prices for Leap common stock.

Effective as of August 31, 2009, CSM exercised this put right. The purchase price for the put will be calculated on a pro rata basis using the appraised value of LCW Wireless, subject to certain adjustments. In September 2009, each of CSM and Cricket appointed an appraiser to conduct an appraisal of LCW Wireless, which appraisals were completed in October 2009. As the two appraisals were not within 10% of one another, the two appointed appraisers are in the process of selecting a third appraiser as required under the LCW LLC Agreement, and the appraisal of this third appraiser will be deemed to be the enterprise value of LCW Wireless. The Company intends to satisfy the put price in cash and completion of this transaction is subject to customary closing conditions.

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We have agreed to prepare and file a resale shelf registration statement for any shares of Leap common stock issued to CSM in connection with the put, and to use our reasonable efforts to cause such registration statement to be declared effective by the SEC. In addition, we have registered all shares of common stock that we may issue under our stock option, restricted stock and deferred stock unit plan, under our employment inducement equity incentive plan and under our employee stock purchase plan. When we issue shares under these stock plans, they can be freely sold in the public market. If any of Leap s stockholders causes a large number of securities to be sold in the public market, these sales could reduce the trading price of Leap common stock. These sales also could impede our ability to raise future capital.

Our Directors and Affiliated Entities Have Substantial Influence over Our Affairs, and Our Ownership Is Highly Concentrated. Sales of a Significant Number of Shares by Large Stockholders May Adversely Affect the Market Price of Leap Common Stock.

Our directors and entities affiliated with them beneficially owned in the aggregate approximately 20.8% of Leap common stock as of October 30, 2009. Moreover, our four largest stockholders and entities affiliated with them beneficially owned in the aggregate approximately 43.5% of Leap common stock as of October 30, 2009. These stockholders have the ability to exert substantial influence over all matters requiring approval by our stockholders. These stockholders will be able to influence the election and removal of directors and any merger, consolidation or sale of all or substantially all of Leap s assets and other matters. This concentration of ownership could have the effect of delaying, deferring or preventing a change in control or impeding a merger or consolidation, takeover or other business combination.

Our resale shelf registration statement registers for resale 11,755,806 shares of Leap common stock held by entities affiliated with one of our directors, or approximately 15.2% of Leap s outstanding common stock as of October 30, 2009. In addition, in connection with our offering of 7,000,000 shares of Leap common stock in the second quarter of 2009, we agreed to register for resale an additional 3,782,063 shares of Leap common stock held by these entities or their affiliates, which together with the shares currently registered for resale would constitute approximately 20.1% of Leap s outstanding common stock as of October 30, 2009, as well as any additional shares of common stock that these entities or their affiliates may acquire in the future. We are unable to predict the potential effect that sales into the market of any material portion of such shares, or any of the other shares held by our other large stockholders and entities affiliated with them, may have on the then-prevailing market price of Leap common stock. If any of Leap s stockholders cause a large number of securities to be sold in the public market, these sales could reduce the trading price of Leap common stock. These sales could also impede our ability to raise future capital.

Provisions in Our Amended and Restated Certificate of Incorporation and Bylaws, under Delaware Law, or in Our Indentures Might Discourage, Delay or Prevent a Change in Control of Our Company or Changes in Our Management and, Therefore, Depress the Trading Price of Leap Common Stock.

Our amended and restated certificate of incorporation and bylaws contain provisions that could depress the trading price of Leap common stock by acting to discourage, delay or prevent a change in control of our company or changes in our management that our stockholders may deem advantageous. These provisions:

- require super-majority voting to amend some provisions in our amended and restated certificate of incorporation and bylaws;

- authorize the issuance of blank check preferred stock that our board of directors could issue to increase the number of outstanding shares to discourage a takeover attempt;

prohibit stockholder action by written consent, and require that all stockholder actions be taken at a meeting of our stockholders;

provide that the board of directors is expressly authorized to make, alter or repeal our bylaws; and

establish advance notice requirements for nominations for elections to our board or for proposing matters that can be acted upon by stockholders at stockholder meetings.

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We are also subject to Section 203 of the Delaware General Corporation Law, which generally prohibits a Delaware corporation from engaging in any of a broad range of business combinations with any interested stockholder for a period of three years following the date on which the stockholder became an interested stockholder and which may discourage, delay or prevent a change in control of our company.

In addition, under the indentures governing our secured and unsecured senior notes and convertible senior notes, if certain change of control events occur, each holder of notes may require us to repurchase all of such holder s notes at a purchase price equal to 101% of the principal amount of secured or unsecured senior notes, or 100% of the principal amount of convertible senior notes, plus accrued and unpaid interest. See Part I Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources of this report.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Submission of Matters to a Vote of Security Holders.

None.

Item 5. Other Information.

None.

Item 6. Exhibits.

Index to Exhibits:

Exhibit Number	Description of Exhibit
4.1(1)	Amended and Restated Registration Rights Agreement, dated as of September 3, 2009, by and among Leap, MHR Capital Partners Master Account LP, MHR Capital Partners (100) LP, MHR Institutional Partners II LP, MHR Institutional Partners IIA LP and MHR Institutional Partners III LP.
31.1*	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32**	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(1) Filed as an exhibit to Leap s Current Report on Form 8-K, dated September 3, 2009, filed with the SEC on September 4, 2009, and incorporated herein by reference.

* Filed herewith.

** This certification is being furnished solely to accompany this quarterly report pursuant to 18 U.S.C. § 1350, and is not being filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and is not to be incorporated by reference into any filing of Leap Wireless International, Inc., whether made before or after the date hereof, regardless of any general incorporation language in such filing.

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SIGNATURES

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

Date: November 6, 2009
LEAP WIRELESS INTERNATIONAL, INC.

By: /s/ S. Douglas Hutcheson

S. Douglas Hutcheson
President and Chief Executive Officer

Date: November 6, 2009

By: /s/ Walter Z. Berger

Walter Z. Berger
Executive Vice President and Chief Financial Officer

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