LEAP WIRELESS INTERNATIONAL INC
Form 10-Q
November 03, 2010

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2010

OR

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

For the transition period from _____to_____

Commission File Number: 001-34865

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

Delaware	**33-0811062**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
5887 Copley Drive, San Diego, CA	**92111**
(Address of Principal Executive Offices)	**(Zip Code)**

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

Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

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

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

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

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

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

The number of shares outstanding of the registrant s common stock on October 27, 2010 was 78,292,882.

LEAP WIRELESS INTERNATIONAL, INC.

QUARTERLY REPORT ON FORM 10-Q
For the Quarter Ended September 30, 2010

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PART I

FINANCIAL INFORMATION

Item 1. Financial Statements.

LEAP WIRELESS INTERNATIONAL, INC.

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

	September 30, 2010 (Unaudited)	December 31, 2009
Assets		
Cash and cash equivalents	$ 308,295	$ 174,999
Short-term investments	256,303	389,154
Restricted cash, cash equivalents and short-term investments	3,503	3,866
Inventories	77,794	107,912
Deferred charges	40,344	38,872
Other current assets	83,030	73,204
Total current assets	769,269	788,007
Property and equipment, net	2,014,605	2,121,094
Wireless licenses	1,920,006	1,921,973
Assets held for sale	4,002	2,381
Goodwill (Note 2)		430,101
Intangible assets, net	21,359	24,535
Other assets	82,187	83,630
Total assets	$ 4,811,428	$ 5,371,721
Liabilities and Stockholders Equity		
Accounts payable and accrued liabilities	$ 302,495	$ 310,386
Current maturities of long-term debt	12,096	8,000
Other current liabilities	235,846	196,647
Total current liabilities	550,437	515,033
Long-term debt	2,726,909	2,735,318
Deferred tax liabilities	276,369	259,512
Other long-term liabilities	112,692	99,696
Total liabilities	3,666,407	3,609,559
Redeemable non-controlling interests	51,236	71,632

Commitments and contingencies (Notes 7 and 9)		
Stockholders equity:		
Preferred stock authorized 10,000,000 shares, $.0001 par value; no shares issued and outstanding		
Common stock authorized 160,000,000 shares, $.0001 par value; 78,300,585 and 77,524,040 shares issued and outstanding at September 30, 2010 and December 31, 2009, respectively	8	8
Additional paid-in capital	2,171,233	2,148,194
Accumulated deficit	(1,076,756)	(458,685)
Accumulated other comprehensive income (loss)	(700)	1,013
Total stockholders equity	1,093,785	1,690,530
Total liabilities and stockholders equity	$ 4,811,428	$ 5,371,721

See accompanying notes to condensed consolidated financial statements.

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LEAP WIRELESS INTERNATIONAL, INC.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Revenues:				
Service revenues	$ 565,237	$ 541,268	$ 1,747,058	$ 1,596,858
Equipment revenues	37,478	58,200	143,152	187,005
Total revenues	602,715	599,468	1,890,210	1,783,863
Operating expenses:				
Cost of service (exclusive of items shown separately below)	180,043	156,707	521,780	455,618
Cost of equipment	120,273	133,502	399,367	419,073
Selling and marketing	98,942	111,702	307,275	311,913
General and administrative	89,202	87,077	270,402	274,192
Depreciation and amortization	114,055	107,876	333,950	297,230
Impairment of assets (Note 2)	477,327	639	477,327	639
Total operating expenses	1,079,842	597,503	2,310,101	1,758,665
Gain (loss) on sale or disposal of assets	(923)	(591)	(3,864)	1,436
Operating income (loss)	(478,050)	1,374	(423,755)	26,634
Equity in net income (loss) of investees, net	(316)	996	1,142	2,990
Interest income	212	727	934	2,314
Interest expense	(60,471)	(59,129)	(181,062)	(150,040)
Other income (expense), net	135	(17)	3,207	(126)
Loss on extinguishment of debt				(26,310)
Loss before income taxes	(538,490)	(56,049)	(599,534)	(144,538)
Income tax benefit (expense)	5,154	(9,358)	(18,537)	(29,412)
Net loss	(533,336)	(65,407)	(618,071)	(173,950)
Accretion of redeemable non-controlling interests, net of tax	(2,947)	834	(4,484)	(3,670)
Net loss attributable to common stockholders	$ (536,283)	$ (64,573)	$ (622,555)	$ (177,620)
Loss per share attributable to common stockholders:				
Basic	$ (7.06)	$ (0.85)	$ (8.21)	$ (2.49)
Diluted	$ (7.06)	$ (0.85)	$ (8.21)	$ (2.49)

Shares used in per share calculations:				
Basic	75,965	75,598	75,869	71,469
Diluted	75,965	75,598	75,869	71,469

See accompanying notes to condensed consolidated financial statements.

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LEAP WIRELESS INTERNATIONAL, INC.

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

	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Operating activities:		
Net cash provided by operating activities	$ 326,254	$ 194,825
Investing activities:		
Purchases of property and equipment	(298,927)	(577,542)
Change in prepayments for purchases of property and equipment	57	5,377
Purchases of wireless licenses and spectrum clearing costs	(2,969)	(34,311)
Proceeds from sale of wireless licenses and operating assets		2,965
Purchases of investments	(481,435)	(640,193)
Sales and maturities of investments	621,449	487,270
Purchase of membership units of equity investment	(967)	
Change in restricted cash	811	706
Net cash used in investing activities	(161,981)	(755,728)
Financing activities:		
Proceeds from issuance of long-term debt		1,057,474
Repayment of long-term debt	(6,000)	(880,904)
Payment of debt issuance costs		(15,094)
Purchase of non-controlling interest	(24,161)	
Proceeds from issuance of common stock, net	660	265,907
Other	(1,476)	(1,227)
Net cash provided by (used in) financing activities	(30,977)	426,156
Net increase (decrease) in cash and cash equivalents	133,296	(134,747)
Cash and cash equivalents at beginning of period	174,999	357,708
Cash and cash equivalents at end of period	$ 308,295	$ 222,961
Supplementary disclosure of cash flow information:		
Cash paid for interest	$ 136,477	$ 133,379
Cash paid for income taxes	$ 3,022	$ 2,490
Non-cash investing and financing activities:		
Contribution of wireless licenses in exchange for an equity interest	$ 2,381	$

See accompanying notes to condensed consolidated financial statements.

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LEAP WIRELESS INTERNATIONAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 1. The Company

Leap Wireless International, Inc. (Leap), a Delaware corporation, together with its subsidiaries, is a wireless communications carrier that offers digital wireless services in the United States under the Cricket® brand. Cricket service offerings provide customers with unlimited wireless services for a flat rate without requiring a fixed-term contract or a credit check. The Company s primary service is Cricket Wireless, which offers customers unlimited wireless voice and data services for a flat monthly rate. Leap conducts operations through its subsidiaries and has no independent operations or sources of income other than interest income and through dividends, if any, from its subsidiaries. Cricket service is offered by Cricket Communications, Inc. (Cricket), a wholly owned subsidiary of Leap. Cricket service is also offered in Oregon by LCW Wireless Operations, LLC (LCW Operations); in the upper Midwest by Denali Spectrum Operations, LLC (Denali Operations); and, commencing October 1, 2010, in South Texas by STX Wireless Operations, LLC (STX Operations).

Cricket owns an indirect 100% interest in LCW Operations through its 100% interest in LCW Wireless, LLC (LCW Wireless). Cricket acquired the remaining 5.4% of the membership interests of LCW Wireless on August 25, 2010, resulting in LCW Wireless and its subsidiaries becoming wholly owned subsidiaries of Cricket.

Cricket owns an indirect 82.5% non-controlling interest in Denali Operations through an 82.5% non-controlling interest in Denali Spectrum, LLC (Denali). Denali was structured to qualify as a designated entity under Federal Communications Commission (FCC) regulations. On September 21, 2010, Cricket entered into an agreement with Denali Spectrum Manager, LLC (DSM) to purchase DSM s 17.5% controlling interest in Denali. Upon the closing of the transaction, Denali and its subsidiaries will become wholly owned subsidiaries of Cricket. In addition, on September 21, 2010, Denali entered into an agreement to contribute all of its spectrum outside its Chicago and Southern Wisconsin operating markets and a related spectrum lease to Savary Island Wireless, LLC (Savary Island), a newly formed venture, in exchange for an 85% non-controlling interest. Denali will retain spectrum and assets relating to its Chicago and Southern Wisconsin operating markets. The closings of both transactions are subject to customary closing conditions, including the approval of the FCC, and the closing of Cricket s acquisition of DSM s controlling interest in Denali is subject to the prior closing of the Savary Island transaction.

Cricket owns an indirect 75.75% controlling interest in STX Operations through a 75.75% interest in STX Wireless, LLC (STX Wireless). STX Wireless is a joint venture created by Cricket and various entities doing business as Pocket Communications (Pocket) to provide Cricket service in the South Texas region. On October 1, 2010, the Company and Pocket contributed substantially all of their respective wireless spectrum and operating assets in the South Texas region to the venture, with Cricket receiving a 75.75% controlling interest and Pocket receiving a 24.25% non-controlling interest. Commencing October 1, 2010, STX Wireless began providing Cricket wireless service in South Texas with a network footprint covering 4.4 million potential customers (POPs).

For more information regarding the transactions described above, see Note 7. Significant Acquisitions, Dispositions and Other Agreements.

Leap, Cricket and their subsidiaries and consolidated joint ventures, including LCW Wireless, Denali and STX Wireless, are collectively referred to herein as the Company.

Note 2. Basis of Presentation and Significant Accounting Policies

Basis of Presentation

The accompanying interim condensed consolidated financial statements have been prepared without audit, in accordance with the instructions to Form 10-Q and therefore do not include all information and footnotes required by accounting principles generally accepted in the United States of America (GAAP) for a complete set of financial statements. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company s Annual Report on Form 10-K for the year ended December 31, 2009. In the opinion of management, the unaudited financial information for the interim periods presented reflects all adjustments necessary for a fair presentation of the Company s results for the periods presented, with such adjustments consisting only of normal recurring adjustments. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the reported amounts of revenues and expenses. By their nature, estimates are subject to an inherent degree of uncertainty. Actual results could differ from management s estimates and operating results for interim periods are not necessarily indicative of operating results for an entire fiscal year.

The condensed consolidated financial statements include the operating results and financial position of Leap and its wholly owned subsidiaries as well as the operating results and financial position of LCW Wireless and Denali and their wholly owned subsidiaries. Prior to August 2010, the Company consolidated its non-controlling interest in LCW Wireless and its wholly owned subsidiaries in accordance with the authoritative guidance for the consolidation of variable interest entities. The Company acquired the remaining interests in LCW Wireless in August 2010. The Company consolidates its non-controlling interest in Denali in accordance with the authoritative guidance for the consolidation of variable interest entities because Denali is a variable interest entity and the Company has entered into an agreement with Denali s other member which establishes a specified, minimum purchase price in the event that it offered or elected to sell its membership interest to the Company. All intercompany accounts and transactions have been eliminated in the condensed consolidated financial statements.

Segment and Geographic Data

The Company operates in a single operating segment and a single reporting unit as a wireless communications carrier that offers digital wireless services in the United States. As of and for the three and nine months ended September 30, 2010, all of the Company s revenues and long-lived assets related to operations in the United States.

Revenues

The Company s business revenues principally arise from the sale of wireless services, devices (handsets and broadband modems) and accessories. Wireless services are provided primarily on a month-to-month basis. In general, the Company s customers are required to pay for their service in advance. Because the Company does not require customers to sign fixed-term contracts or pass a credit check, its services are available to a broader customer base than many other wireless providers and, as a result, some of its customers may be more likely to have service terminated due to an inability to pay. Consequently, the Company has concluded that collectability of its revenues is not reasonably assured until payment has been received. Accordingly, service revenues are recognized only after services have been rendered and payment has been received.

In August 2010, the Company introduced new rate plans for all of its Cricket services, ceased separately charging for certain fees (such as activation, reactivation and regulatory fees) and telecommunications taxes and ceased offering a free month of service to new Cricket Wireless and Cricket Broadband customers when they purchase a new device and activate service. Prior to August 2010, when the Company activated service for a new customer, it typically sold that customer a device bundled with a period of free service. Under the authoritative guidance for revenue arrangements with multiple deliverables, the sale of a device along with service constitutes a multiple element arrangement. Under this guidance, once a company has determined the fair value of the elements in the sales transaction, the total consideration received from the customer must be allocated among those elements on a relative fair value basis. Applying the guidance to these transactions results in the Company recognizing the total consideration received, less amounts allocated to the wireless service period (generally the customer s monthly rate plan), as equipment revenue.

Amounts allocated to equipment revenues, and related costs from the sale of devices, are recognized when service is activated by new customers. Revenues and related costs from the sale of accessories and upgrades for existing customers are recognized at the point of sale. The costs of devices and accessories sold are recorded in cost of equipment. In addition to devices that the Company sells directly to its customers at Cricket-owned stores, the Company sells devices to third-party dealers, including mass-merchant retailers. These dealers then sell the devices to the ultimate Cricket customer, similar to the sale made at a Cricket-owned store. Sales of devices to third-party dealers are recognized as equipment revenues only when service is activated by customers, since the level of price reductions and commissions ultimately available to such dealers is not reliably estimable until the devices are sold by such dealers to customers. Thus, revenues from devices sold to third-party dealers are recorded as deferred equipment revenue and the related costs of the devices are recorded as deferred charges upon shipment by the Company. The deferred charges are recognized as equipment costs when the related equipment revenue is recognized, which occurs when service is activated by the customer.

Through a third-party provider, the Company s customers may elect to participate in an extended-warranty program for devices they purchase. The Company recognizes revenue on replacement devices sold to its customers under the program when the customer purchases the device.

Sales incentives offered to customers and commissions and sales incentives offered to the Company s third-party dealers are recognized as a reduction of revenue when the related service or equipment revenue is recognized. Customers have limited rights to return devices and accessories based on time and/or usage, and customer returns of devices and accessories have historically been insignificant.

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

Universal Service Fund, E-911 and other telecommunications-related regulatory fees are assessed by various federal and state 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 billed and collected from its customers, net of amounts remitted to the governmental authorities, as service revenues in the condensed consolidated statements of operations.

Fair Value of Financial Instruments

The authoritative guidance for fair value measurements defines fair value for accounting purposes, establishes a framework for measuring fair value and provides 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 this guidance. See Note 5 for a further discussion regarding the Company s measurement of assets and liabilities at fair value.

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, 2010 the Company did not capitalize interest to property and equipment. 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.

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, 2010, the Company capitalized approximately $36.9 million and $85.6 million, respectively, to property and equipment, and amortized internal use software costs of $9.4 million and $23.1 million, respectively. 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.

Property and equipment to be disposed of by sale is not depreciated and is carried at the lower of carrying value or fair value less costs to sell. As of September 30, 2010 and December 31, 2009, there was no property or equipment classified as assets held for sale.

Wireless Licenses

The Company, LCW Wireless, Denali and STX Wireless operate networks under Personal Communications Services (PCS) and/or Advanced Wireless Services (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

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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 on an annual basis in accordance with the authoritative guidance for goodwill and other intangible assets. As of September 30, 2010 and December 31, 2009, the carrying value of the Company s and its consolidated joint ventures wireless licenses was $1.9 billion. 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, 2010 and December 31, 2009, wireless licenses with a carrying value of $4.0 million and $2.4 million were classified as assets held for sale, respectively, as more fully described in Note 7.

Portions of the AWS spectrum that the Company and Denali were awarded in Auction #66 were subject to use 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. In connection with the launch of new markets over the past two years, the Company and Denali worked with several incumbent government and commercial licensees to clear AWS spectrum. The Company s and Denali s spectrum clearing costs have been capitalized to wireless licenses as incurred. During the three and nine months ended September 30, 2010, the Company and Denali incurred approximately $1.1 million and $3.0 million, respectively, in spectrum clearing costs. 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.

Goodwill and Other Intangible Assets

Goodwill primarily represents the excess of the Company s reorganization value over the fair value of identified tangible and intangible assets recorded in connection with fresh-start reporting as of July 31, 2004. In connection with its annual goodwill impairment test performed during the third quarter of 2010, the Company determined that the implied value of its goodwill was zero. As a result, the Company recorded an impairment charge totaling $430.1 million in the third quarter of 2010, reducing the carrying amount of goodwill to zero. See Impairment of Indefinite-Lived Intangible Assets below.

The change in the carrying amount of the Company s goodwill for the nine months ended September 30, 2010 is as follows (in thousands):

	Nine Months Ended September 30, 2010
Beginning balance, January 1	$ 430,101
Goodwill impairment charge	(430,101)
Ending balance, September 30	$

The Company s intangible assets consist of trademarks and customer relationships. The Company s trademarks were recorded upon adoption of fresh-start reporting and 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 Long-Lived Assets

The Company assesses potential impairments to its 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. An impairment loss may be required to be recognized when the undiscounted cash flows expected to be generated by a long-lived asset (or group of such assets) is less than its carrying value. Any required impairment loss would be measured as the amount by which the asset s carrying value exceeds its fair value and would be recorded as a reduction in the carrying value of the related asset and charged to results of operations.

As a result of the sustained decrease in its market capitalization, and in conjunction with the annual assessment of its goodwill, the Company tested its long-lived assets for potential impairment during the third quarter of 2010. As the Company s long-lived assets do not have identifiable cash flows that are largely independent of other asset groupings, the Company completed this assessment at the enterprise level. As required by the authoritative guidance for impairment testing, the Company compared its total estimated undiscounted future cash flows to the carrying value of its long-lived and indefinite-lived assets at September 30, 2010. Under this analysis, the Company s total estimated undiscounted future cash flows were determined to have exceeded the total carrying value of the Company s long-lived and indefinite-lived assets. If the Company s total estimated undiscounted future cash flows calculated in this analysis were 10% less than those determined, they would continue to exceed the total carrying value of the Company s long-lived and indefinite-lived assets. The Company estimated its future cash flows based on projections regarding its future operating performance, including projected customer growth, customer churn, average monthly revenue per customer and costs per gross additional customer. If the Company s actual results were to materially differ from those projected, this failure could have a significant adverse effect on the Company s estimated undiscounted future cash flows and could ultimately result in an impairment to its long-lived assets.

In connection with the analysis described above, the Company evaluated certain network design, site acquisition and capitalized interest costs relating to the expansion of its network which had been accumulated in construction-in-progress. In August 2010, the Company entered into a wholesale agreement with an affiliate of Sprint Nextel to permit the Company to offer Cricket wireless services outside its current network footprint using Sprint s network. The Company believes that this agreement will allow it to strengthen and expand its distribution and will provide it greater flexibility with respect to its network expansion plans. As a result, the Company has determined to spend an increased portion of its planned capital expenditures on the deployment of next-generation LTE technology and to defer its previously planned network expansion activities. As a result of these developments, the costs previously accumulated in construction-in-progress were determined to be impaired and the Company recorded an impairment charge of $46.5 million during the third quarter of 2010.

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. The annual impairment test is conducted during the third quarter of each year.

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 because these licenses are not functioning as part of a group with licenses in the Company s operating markets. As of September 30, 2010, the carrying values of the Company s operating and non-operating wireless licenses were $1,772.2 million and $147.8 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.

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).

As more fully described above, the most significant assumption used to determine the fair value of the Company s 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 10% decline in comparable sales prices would generally result in a 10% 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 the Company s 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 the Company s wireless licenses.

As of September 30, 2010, the aggregate fair value and carrying value of the Company s individual operating wireless licenses were $2,518.2 million and $1,772.2 million, respectively. If the fair value of the Company s operating wireless licenses had declined by 10% in such impairment test, the Company would not have recognized any impairment loss. As of September 30, 2010, the aggregate fair value and carrying value of the Company s individual non-operating wireless licenses were $216.5 million and $147.8 million, respectively. If the fair value of the Company s non-operating wireless licenses had declined by 10% as of September 30, 2010, it would have recognized an impairment loss of approximately $1.0 million.

As a result of the annual impairment test of wireless licenses, the Company recorded an impairment charge of $0.8 million during the three and nine months ended September 30, 2010 and an impairment charge of $0.6 million during the three and nine months ended September 30, 2009 to reduce the carrying values of certain non-operating wireless licenses to their estimated fair values. No impairment charges were recorded with respect to the Company s operating wireless licenses as the aggregate fair values of these licenses exceeded their aggregate carrying value.

Goodwill

During the third quarter of each year, the Company assesses its 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 its 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.

In connection with this annual impairment test, the Company bases its determination of fair value primarily upon its average market capitalization for the month of August, plus a 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. The Company considered the month of August to be an appropriate period over which to measure average market capitalization in 2010 because trading prices during that period reflected market reaction to the Company s most recently announced financial and operating results, announced early in the month of August.

In conducting the annual impairment test during the third quarter of 2010, the Company applied a control premium of 30% to its average market capitalization. The Company believes that consideration of a control premium is customary in determining fair value and is contemplated by the applicable accounting guidance. The Company believes that its consideration of a control premium was appropriate because it believes that its market capitalization does not fully capture the fair value of its business as a whole or the additional amount an assumed purchaser would pay to obtain a controlling interest in the Company. The Company determined the amount of the control premium as part of its third quarter 2010 testing based upon its relevant transactional experience, a review of recent comparable telecommunications transactions and an assessment of market, economic and other factors. Depending on the circumstances, the actual amount of any control premium realized in any transaction involving the Company could be higher or lower than the control premium the Company applied.

The carrying value of the Company s goodwill was $430.1 million as of August 31, 2010. As of August 31, 2010, the book value of the Company s net assets exceeded the Company s fair value, determined based upon its average market capitalization during the month of August 2010 and applying an assumed control premium of 30%. As a result, the Company performed the second step of the assessment to measure the amount of any impairment.

Under step two of the assessment, the Company performed a hypothetical purchase price allocation as if the Company were being acquired in a business combination and estimated the fair value of the Company s identifiable assets and liabilities. This determination required the Company to make significant estimates and assumptions regarding the fair value of both its recorded and unrecorded assets and liabilities, such as its customer relationships, wireless licenses and property and equipment. This step of the assessment indicated that the implied fair value of the Company s goodwill was zero, as the fair value of the Company s identifiable assets and liabilities as of August 31, 2010 exceeded the Company s fair value. As a result, the Company recorded a non-cash impairment charge of $430.1 million in the third quarter of 2010, reducing the carrying amount of its goodwill to zero.

As discussed in greater detail in Note 7, on October 1, 2010, the Company and Pocket contributed substantially all of their respective wireless spectrum and operating assets in the South Texas region to STX Wireless, a newly formed joint venture controlled and managed by Cricket. The Company is in the process of determining the fair value of the net assets acquired and intends to include the final purchase price allocation and other required disclosures in its Annual Report on Form 10-K for the year ending December 31, 2010, which may result in a portion of the purchase price being allocated to goodwill on the Company s consolidated balance sheet. The closing price of Leap common stock was $12.35 on September 30, 2010 and Leap s market capitalization was below the Company s book value on such date. Since September 30, 2010, the closing price of Leap common stock has ranged from a high of $12.35 per share to a low of $10.76 per share on October 27, 2010. If the final purchase price allocation results in the Company recording goodwill, and if the price of Leap common stock continues to trade at prices below book value per share, the Company expects that it will determine, in connection with its fourth quarter impairment evaluation, that it is required to recognize a non-cash impairment charge equal to the full amount of any goodwill recorded as part of this transaction. Any required impairment to goodwill would be a function of the impairment test being performed at the enterprise level and would not relate to the operating results of the acquired business or the purchase price allocation.

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 for investments 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 Company s ownership interest in equity method investees ranges from approximately 7% to 20% of outstanding membership units. The carrying value of the Company s investments in its equity method investees was $26.0 million and $21.3 million as of September 30, 2010 and December 31, 2009, respectively. During the three months ended September 30, 2010, the Company s share of losses of its equity method investees was $0.3 million. During the nine months ended September 30, 2010, the Company s share of the income of its equity method investees (net of its share of their losses) was $1.1 million. During the three and nine months ended September 30, 2009, the Company s share of the income of its equity method investees was $1.0 million and $3.0 million, respectively.

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

Concentrations

The Company generally relies on one key vendor for billing services, a limited number of vendors for device 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 networks the Company operates do not, by themselves, provide national coverage and it must pay fees to other carriers who provide roaming or wholesale services to the Company. The Company currently relies on roaming agreements with several carriers for the majority of its voice roaming services and generally on one key carrier for its data roaming services. The Company has also entered into a wholesale agreement with an affiliate of Sprint Nextel to permit the Company to offer Cricket wireless services outside of its current network footprint using Sprint s network. If the Company were unable to obtain or maintain cost-effective roaming or wholesale 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, 2010 and 2009 was allocated in the condensed consolidated statements of operations as follows (in thousands, except per share data):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	**2009**	**2010**	**2009**
Cost of service	$ 852	$ 865	$ 2,315	$ 2,510
Selling and marketing expense	1,577	1,866	4,514	4,915
General and administrative expense	6,553	8,276	20,034	25,644
Share-based compensation expense	$ 8,982	$ 11,007	$ 26,863	$ 33,069
Share-based compensation expense per share:				
Basic	$ 0.12	$ 0.15	$ 0.35	$ 0.46
Diluted	$ 0.12	$ 0.15	$ 0.35	$ 0.46

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 2010 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 for income tax purposes. Because the Company s projected 2010 ordinary 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, therefore making it difficult to determine 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, 2010 and 2009 by applying the actual effective tax rate to the year-to-date income.

During the three months ended September 30, 2010, the Company recorded nonrecurring income tax benefits of $15.5 million and $4.1 million associated with the deferred tax effect of the goodwill impairment charge and the purchase of the remaining interest in LCW Wireless, respectively.

The Company calculates income taxes in each of the jurisdictions in which it operates. This process involves calculating the 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, 2010 were federal NOL carryforwards of approximately $2.0 billion (which begin to expire in 2022) and state NOL carryforwards of approximately $2.1 billion ($21.9 million of which will expire at the end of 2010), which could be used to offset future ordinary taxable income and reduce the amount of cash required to settle future tax liabilities. While these NOL carryforwards have a potential value of approximately $765.3 million in cash tax savings, there is no assurance that the Company will be able to realize such tax savings.

If the Company were to experience an ownership change, as defined in Section 382 of the Internal Revenue Code and similar state provisions, its ability to utilize these NOLs to offset future taxable income would be significantly limited. The occurrence of such a change would generally limit the amount of NOL carryforwards that the Company could utilize in a given year to the aggregate fair market value of the Company s common stock immediately prior to the ownership change, multiplied by the long-term tax-exempt interest rate in effect for the month of the ownership change. In general terms, a change in ownership can occur whenever there is a collective shift in the ownership of a company by more than 50 percentage points by one or more 5% stockholders within a three-year period. The determination of whether an ownership change has occurred for purposes of Section 382 is complex and requires significant judgment. The occurrence of such an ownership change would accelerate cash tax payments the Company would have to make and likely result in a substantial portion of its NOLs expiring before the Company could fully utilize them. As a result, any restriction on the Company s ability to utilize these NOL carryforwards could have a material adverse impact on its business, financial condition and future cash flows.

Recent trading in Leap common stock has increased the risk of an ownership change under Section 382 of the Internal Revenue Code. On September 13, 2010, the Company s board of directors adopted a Tax Benefit Preservation Plan to help deter acquisitions of Leap common stock that could result in an ownership change under Section 382 and thus help preserve the Company s ability to use its NOL carryforwards. The Tax Benefit Preservation Plan is designed to deter acquisitions of Leap common stock that would result in a stockholder owning 4.99% or more of Leap common stock (as calculated under Section 382), or any existing holder of 4.99% or more of Leap common stock acquiring additional shares, by substantially diluting the ownership interest of any such stockholder unless the stockholder obtains an exemption from the Company s board of directors.

None of the Company s NOL carryforwards are being considered as an uncertain tax position or disclosed as an unrecognized tax benefit. Any carryforwards that expire prior to utilization as a result of a Section 382 limitation will be removed from deferred tax assets with a corresponding reduction to valuation allowance. Since the Company currently maintains a full valuation allowance against its federal and state NOL carryforwards, it is not expected that any possible limitation would have a current impact on its net income.

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, 2010, 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 $2.0 million Texas Margins Tax (TMT) 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 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 when these assets are either sold or impaired for book purposes.

In accordance with the authoritative guidance for business combinations, 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 significant in any period. All of the Company s tax years

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from 1998 to 2009 remain open to examination by federal and state taxing authorities. In July 2009, the federal examination of the Company s 2005 tax year 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, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Net loss	$ (533,336)	$ (65,407)	$ (618,071)	$ (173,950)
Other comprehensive loss:				
Net unrealized holding gains (losses) on investments, net of tax	(6)	(219)	(256)	389
Reclassification of (gains) losses included in earnings, net of tax			(1,457)	6,119
Comprehensive loss	$ (533,342)	$ (65,626)	$ (619,784)	$ (167,442)

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

	September 30, 2010	December 31, 2009
Other current assets:		
Accounts receivable, net(1)	$ 41,063	$ 37,456
Prepaid expenses	34,794	21,109
Other	7,173	14,639
	$ 83,030	$ 73,204
Property and equipment, net(2):		
Network equipment	$ 3,000,980	$ 2,848,952
Computer hardware and software	332,062	246,546
Construction-in-progress	130,643	177,078
Other	103,611	101,616
	3,567,296	3,374,192
Accumulated depreciation	(1,552,691)	(1,253,098)
	$ 2,014,605	$ 2,121,094
Intangible assets, net:		
Customer relationships	$ 7,347	$ 7,347
Trademarks	37,000	37,000
	44,347	44,347
Accumulated amortization of customer relationships	(6,690)	(5,496)
Accumulated amortization of trademarks	(16,298)	(14,316)
	$ 21,359	$ 24,535
Accounts payable and accrued liabilities:		
Trade accounts payable	$ 154,787	$ 180,711
Accrued payroll and related benefits	58,004	47,651
Other accrued liabilities	89,704	82,024
	$ 302,495	$ 310,386
Other current liabilities:		
Deferred service revenue(3)	$ 84,924	$ 82,403
Deferred equipment revenue(4)	20,262	28,218
Accrued sales, telecommunications, property and other taxes payable	39,722	33,712
Accrued interest	83,883	47,101
Other	7,055	5,213

	$	235,846	$	196,647

(1) Accounts receivable, net consists primarily of amounts billed to third-party dealers for devices and accessories and amounts due from service providers related to interconnect and roaming agreements, net of an allowance for doubtful accounts.

(2) As of September 30, 2010 and December 31, 2009, approximately $8.5 million of assets were held by the Company under capital lease arrangements. Accumulated amortization relating to these assets totaled $4.4 million and $3.8 million as of September 30, 2010 and December 31, 2009, respectively.

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

(4) Deferred equipment revenue relates to devices 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 net losses for the three and nine months ended September 30, 2010 and 2009, 9.5 million common share equivalents were excluded from the computation of diluted earnings (loss) per share for each of the three and nine months ended September 30, 2010, and 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, as their effect would be antidilutive.

Note 5. Fair Value Measurements

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 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. 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, 2010 or December 31, 2009.

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 as of September 30, 2010 and December 31, 2009 included its cash equivalents, its short-term investments in obligations of the U.S. government and government agencies and a majority of its short-term investments in commercial paper.

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 December 31, 2009 was a short-term investment in asset-backed commercial paper. The Company did not have any Level 3 assets or liabilities as of September 30, 2010.

The following tables set forth by level within the fair value hierarchy the Company s assets and liabilities that were recorded at fair value as of September 30, 2010 and December 31, 2009 (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, which may affect the valuation of assets and liabilities and their placement within the fair value hierarchy levels.

	At Fair Value as of September 30, 2010			
	Level 1	Level 2	Level 3	Total
Assets:				
Money markets and certificates of deposit	$	$ 147,187	$	$ 147,187
Commercial paper		72,182		72,182
U.S. government or government agency securities		285,473		285,473
Total	$	$ 504,842	$	$ 504,842

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	At Fair Value as of December 31, 2009			
	Level 1	Level 2	Level 3	Total
Assets:				
Money markets and certificates of deposit	$	$ 81,432	$	$ 81,432
Commercial paper		108,952		108,952
Asset-backed commercial paper			2,731	2,731
U.S. government or government agency securities		350,435		350,435
Total	$	$ 540,819	$ 2,731	$ 543,550

Assets in the tables above are reported in the condensed consolidated balance sheets as components of cash and cash equivalents, short-term investments, restricted cash, cash equivalents and short-term investments and other assets.

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

	Nine Months Ended September 30,	
	2010	2009
Beginning balance, January 1	$ 2,731	$ 1,250
Total gains (losses):		
Included in net loss	$ 3,341	$
Included in comprehensive income (loss)	(1,680)	1,100
Purchases and (sales):		
Purchases		
Sales	(4,392)	
Transfers into Level 3		
Transfers (out) of Level 3		
Ending balance, September 30	$	$ 2,350

Unrealized gains (losses) are presented in accumulated other comprehensive income (loss) in the condensed consolidated balance sheets. Realized gains (losses) are presented in other income (expense), net in the condensed consolidated statements of operations.

Cash Equivalents and Short-Term Investments

As of September 30, 2010 and December 31, 2009, 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 prior to its complete sale in the second quarter of 2010 was determined using primarily unobservable inputs that could not be corroborated by market data, primarily consisting of indicative bids from potential purchasers, and was therefore considered to be a Level 3 item.

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Available-for-sale securities were comprised as follows as of September 30, 2010 and December 31, 2009 (in thousands):

	As of September 30, 2010	
	Cost	Fair Value
Money markets and certificates of deposits	$ 147,187	$ 147,187
Commercial paper	72,182	72,182
U.S. government or government agency securities	285,475	285,473
	$ 504,844	$ 504,842

	As of December 31, 2009	
	Cost	Fair Value
Money markets and certificates of deposits	$ 81,432	$ 81,432
Commercial paper	108,955	108,952
Asset-backed commercial paper	1,051	2,731
U.S. government or government agency securities	350,402	350,435
	$ 541,840	$ 543,550

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 $2,863.2 million and $2,715.7 million as of September 30, 2010 and December 31, 2009, respectively.

Assets Measured at Fair Value on a Nonrecurring Basis

The table below summarizes the non-financial assets that were measured and recorded at fair value on a non-recurring basis as of September 30, 2010 and the losses recorded during the three and nine months ended September 30, 2010 on those assets (in thousands):

	At Fair Value as of September 30, 2010			
	Level 1	Level 2	Level 3	Losses
Assets:				
Goodwill	$	$	$	$ 430,101
Property and equipment				46,460
Wireless licenses			147,768	766

Total	$	$	$ 147,768	$ 477,327

As discussed in Note 2, the Company recorded charges for the impairment of goodwill, certain long-lived assets and certain non-operating wireless licenses during the three months ended September 30, 2010. The fair value of these assets was determined using Level 3 inputs and the valuation techniques discussed in Note 2.

Note 6. Long-Term Debt

Long-term debt as of September 30, 2010 and December 31, 2009 was comprised of the following (in thousands):

	September 30, 2010	December 31, 2009
Unsecured senior notes due 2014 and 2015	$ 1,400,000	$ 1,400,000
Unamortized premium on $350 million unsecured senior notes due 2014	13,142	15,111
Senior secured notes due 2016	1,100,000	1,100,000
Unamortized discount on $1,100 million senior secured notes due 2016	(36,233)	(39,889)
Convertible senior notes due 2014	250,000	250,000
Term loans under LCW senior secured credit agreement	12,096	18,096
	2,739,005	2,743,318
Current maturities of long-term debt	(12,096)	(8,000)
	$ 2,726,909	$ 2,735,318

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 using the effective interest rate method. At September 30, 2010, the effective interest rate on the $350 million of senior notes was 9.04%, 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, Denali and STX Wireless 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 (including LCW Wireless and STX Wireless and their respective subsidiaries) and of Denali and its 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 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.

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, Denali and STX Wireless 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 (including LCW Wireless and STX Wireless and their respective subsidiaries) and of Denali and its 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.

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, which notes were exchanged in December 2009 for identical notes that had been registered with the SEC. 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 using the effective interest rate method. At September 30, 2010, the effective interest rate on the notes was 8.01%, 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 commenced 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, Denali and STX Wireless 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

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of $1,500 million and 3.5 times Leap s consolidated cash flow (excluding the consolidated cash flow of LCW Wireless, Denali and STX Wireless) 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, Denali and STX Wireless) 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 (including LCW Wireless and STX Wireless and their respective subsidiaries) and of Denali and its 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 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 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 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 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 thereon to the repurchase date.

LCW Operations Senior Secured Credit Agreement

As of September 30, 2010, LCW Operations had a senior secured credit agreement, as amended, consisting of two term loans with an aggregate outstanding principal amount of approximately $12.1 million. On October 28, 2010, LCW Operations repaid all amounts outstanding under the senior secured credit agreement, and the agreement was terminated.

Note 7. Significant Acquisitions, Dispositions and Other Agreements

Joint Venture with Pocket Communications

On October 1, 2010, the Company and Pocket contributed substantially all of their respective wireless spectrum and operating assets in the South Texas region to a new joint venture, STX Wireless, with Cricket receiving a 75.75% controlling interest in the venture and Pocket receiving a 24.25% non-controlling interest. Immediately prior to the closing, the Company also purchased specified assets from Pocket for approximately $38 million in cash, which assets were also contributed to the venture. The joint venture is controlled and managed by Cricket under the terms of the amended and restated limited liability company agreement (the STX LLC Agreement).

The joint venture strengthens the Company s presence and competitive positioning in the South Texas region. Commencing October 1, 2010, STX Wireless began providing Cricket wireless service to approximately 700,000 customers, of which approximately 300,000 or more were contributed by Pocket. The combined network footprint covers approximately 4.4 million POPs.

The consideration provided to Pocket at closing consisted of cash in the amount of $38 million and membership units in STX Wireless. The fair value of the membership units issued to Pocket will be determined for accounting purposes, and reflected in the Company s financial statements in the fourth quarter of 2010. The amended and restated asset purchase and contribution agreement also provides for a potential cash purchase price adjustment of up to $3.8 million. The determination of any adjustment, however, has not yet been finalized. The Company will account for the transaction assuming the Company is the acquirer in a business purchase combination in accordance with the authoritative guidance for business combinations. The Company is in the process of determining the fair value of the net assets acquired and intends to include the final purchase price allocations and other required disclosures in the Company s annual report on Form 10-K for the year ending December 31, 2010.

If the final purchase price allocation results in the Company recording goodwill and if the price of Leap common stock continues to trade at prices below book value per share, and in light of the Company s impairment of its goodwill as of September 30, 2010, the Company expects that it will determine, in connection with its fourth quarter impairment evaluation, that it is required to recognize a non-cash impairment charge equal to the full amount of any goodwill recorded as part of this transaction.

Under the STX LLC Agreement, Pocket has the right to put, and the Company has the right to call, all of Pocket s membership interests in STX Wireless, which rights are generally exercisable on or after April 1, 2014. In addition, in the event of a change of control of Leap, Pocket would be obligated to sell to the Company all of its membership interests in STX Wireless. The purchase price for Pocket s membership interests would be equal to 24.25% of Leap s enterprise value-to-revenue multiple for the four most recently completed fiscal quarters multiplied by the total revenues of STX Wireless and its subsidiaries over that same period, payable in either cash, Leap common stock or a combination thereof, as determined by Cricket in its discretion (provided that, if permitted by Cricket s debt instruments, at least $25 million of the purchase price must be paid in cash). The Company would have the right to deduct from or set off against the purchase price certain distributions to, and obligations owed to the Company by, Pocket. Under the STX LLC Agreement, Cricket would be permitted to purchase Pocket s membership interests in STX Wireless over multiple closings in the event that the block of shares of Leap common stock issuable to Pocket at the closing of the purchase would be greater than 9.9% of the total number of shares of Leap common stock then issued and outstanding. The Company will record this obligation to Pocket as a component of redeemable interests in its consolidated balance sheets in future periods.

At the closing, STX Wireless entered into a loan and security agreement with Pocket pursuant to which, commencing in April 2012, STX Wireless agreed to make quarterly limited-recourse loans to Pocket out of excess cash in an aggregate principal amount not to exceed $30 million, which loans are secured by Pocket s membership interests in STX Wireless. Such loans will bear interest at 8.0% per annum, compounded annually, and will mature on the earlier of the tenth anniversary of the closing date and the date on which Pocket ceases to hold any membership interests in STX Wireless. Cricket will have the right to set off all outstanding principal and interest under this loan facility against the payment of the purchase price for Pocket s membership interests in STX Wireless in the event of a put, call or mandatory buyout following a change of control of Leap.

Other Acquisitions and Dispositions

On January 8, 2010, the Company contributed certain non-operating wireless licenses in West Texas with a carrying value of approximately $2.4 million to a regional wireless service provider in exchange for a 6.6% ownership interest in the company.

On March 30, 2010, Cricket acquired an additional 23.9% membership interest in LCW Wireless from CSM Wireless, LLC (CSM) following CSM s exercise of its option to sell its interest in LCW Wireless to Cricket for $21.0 million, which increased Cricket s non-controlling interest in LCW Wireless to 94.6%. On August 25, 2010, Cricket acquired the remaining 5.4% of the membership interests in LCW Wireless following the exercise by WLPCS Management, LLC of its option to sell its entire controlling interest in LCW Wireless to Cricket for $3.2 million and the exercise by Cricket of its option to acquire all of the membership interests held by employees of LCW Wireless. As a result of the acquisition, LCW Wireless and its subsidiaries became wholly owned subsidiaries of Cricket.

On September 15, 2010, the Company and a subsidiary of AT&T, Inc. (AT&T) entered into two wireless license purchase agreements, under which the Company agreed to purchase a wireless license for an additional 10 MHz of spectrum in Corpus Christi, Texas for $4.0 million, and AT&T agreed to purchase wireless licenses for an additional 10 MHz of spectrum covering portions of North Carolina, Kentucky, New York and Colorado for an aggregate of $4.0 million. Completion of each transaction is subject to customary closing conditions, including the consent of the FCC. The Company has recorded a loss on the sale transaction of $0.2 million for the three and nine months ended September 30, 2010 and the carrying values of the wireless licenses to be sold to AT&T have been classified as assets held for sale in the Company s condensed consolidated balance sheets as of September 30, 2010. Following the closing of the acquisition of the Corpus Christi, Texas spectrum, the Company intends to sell such spectrum to STX Wireless for $4.0 million.

On September 21, 2010, Cricket entered into an agreement with DSM to acquire DSM s 17.5% controlling interest in Denali for up to approximately $58 million in cash (depending on the timing of the closing) and a five-year $45.5 million promissory note. Interest on the outstanding principal balance of the note will accrue at compound annual rates ranging from approximately 5.0% to 8.3%. Cricket must make principal payments of $8.5 million per year, with the remaining principal balance and all accrued interest payable at maturity. Cricket s obligations under the note will be secured on a first-lien basis by certain assets of Savary Island. Upon the closing of the transaction, Denali and its subsidiaries will become wholly owned subsidiaries of Cricket.

In addition, on September 21, 2010, Denali entered into an agreement with Ring Island Wireless, LLC (Ring Island) to contribute all of its spectrum outside its Chicago and Southern Wisconsin operating markets and a related spectrum lease to Savary Island, a newly formed venture, in exchange for an 85% non-controlling interest. Ring Island will contribute $5.1 million in cash to the venture in exchange for a 15% controlling interest. Savary Island is a newly formed entity that has applied to the FCC to obtain this spectrum as a very small business designated entity under FCC regulations. In connection with Denali s contribution, Savary Island will assume $211.6 million of the outstanding senior secured debt owed by Denali to Cricket, and Cricket will provide a senior secured working capital facility to Savary Island with initial availability of up to $5.0 million. Denali will retain the spectrum and assets relating to its Chicago and Southern Wisconsin operating markets. At the closing, Savary Island will enter into a management services agreement with Cricket, pursuant to which Cricket will provide management and administrative services to Savary Island and its subsidiaries. Under the amended and restated limited liability company agreement of Savary Island that will be entered into by Denali and Ring Island at the closing, based upon current FCC requirements, Ring Island will have the right to put all of its membership interest in Savary Island to Cricket in mid-2012.

The closings of both transactions are subject to customary closing conditions, including the approval of the FCC, and the closing of Cricket s acquisition of DSM s controlling interest in Denali is subject to the prior closing of the Savary Island transaction.

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Wholesale Agreement

On August 2, 2010, the Company entered into a wholesale agreement with an affiliate of Sprint Nextel. The agreement permits the Company to offer Cricket wireless services outside the Company s current wireless footprint using Sprint s network.

The initial term of the wholesale agreement is until December 31, 2015, and the agreement renews for successive one-year periods unless either party provides 180-day advance notice to the other. Under the agreement, the Company will pay Sprint a specified amount per month for each subscriber activated on its network, subject to periodic market-based adjustments. The Company has agreed to provide Sprint with a minimum of $300 million of aggregate revenue over the initial five-year term of the agreement (against which the Company can credit up to $100 million of service revenue under other existing commercial arrangements between the companies), with a minimum of $25 million of revenue to be provided in 2011, a minimum of $75 million of revenue to be provided in each of 2012, 2013 and 2014, and a minimum of $50 million of revenue to be provided in 2015. Any revenue provided by the Company in a given year above the minimum revenue commitment for that particular year will be credited to the next succeeding year.

In the event Leap is involved in a change-of-control transaction with another facilities-based wireless carrier with annual revenues of at least $500 million in the fiscal year preceding the date of the change of control agreement (other than MetroPCS Communications, Inc.), either Sprint or the Company (or its successor in interest) may terminate the agreement within 60 days following the closing of such a transaction. In connection with any such termination, the Company (or its successor in interest) would be required to pay to Sprint a specified percentage of the remaining aggregate minimum revenue commitment, with the percentage to be paid depending on the year in which the change of control agreement was entered into, beginning at 40% for any such agreement entered into in or before 2011, 30% for any such agreement entered into in 2012, 20% for any such agreement entered into in 2013 and 10% for any such agreement entered into in 2014 or 2015.

In the event that Leap is involved in a change-of-control transaction with MetroPCS Communications, Inc. during the term of the wholesale agreement, then the agreement would continue in full force and effect, subject to certain revisions, including, without limitation, an increase to the total minimum revenue commitment to $350 million, taking into account any revenue contributed by Cricket prior to the date thereof.

In the event Sprint is involved in a change-of-control transaction, the agreement would bind Sprint s successor-in-interest.

Note 8. Arrangements with Variable Interest Entities

As described in Note 2, the Company consolidates its non-controlling interest in Denali in accordance with the authoritative guidance for the consolidation of variable interest entities because Denali is a variable interest entity and the Company has entered into an agreement with Denali s other member which establishes a specified, minimum purchase price in the event that it offered or elected to sell its membership interest to the Company. Prior to August 2010, the Company consolidated its interest in LCW Wireless and its wholly owned subsidiaries in accordance with authoritative guidance for the consolidation of variable interest entities. All intercompany accounts and transactions have been eliminated in the condensed consolidated financial statements. Denali offers Cricket service (through a wholly owned subsidiary) and, accordingly, is generally subject to the same risks in conducting operations as the Company.

Arrangements with Denali

Cricket and DSM formed Denali as a venture to participate (through a wholly owned subsidiary) in FCC Auction #66. Cricket owns an 82.5% non-controlling interest and DSM owns a 17.5% controlling interest in Denali. As of September 30, 2010, Cricket s equity contributions to Denali totaled $83.7 million. As described further below, Cricket has entered into an agreement to acquire the 17.5% controlling interest in Denali held by DSM.

Limited Liability Company Agreement

Under the amended and restated limited liability company agreement of Denali currently in effect, DSM is entitled to 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. Under the agreement, if DSM were to make a sale offer each year and Cricket did not accept any such sale offer, then DSM could put its membership interest to a subsidiary of Denali in 2017. The consummation of any sale offer accepted by Cricket, or any put transaction that could be exercised by DSM, would be subject to FCC approval. The Company has recorded this obligation to DSM, including related accretion charges, as a component of redeemable non-controlling interests in the condensed consolidated balance sheets. As of September 30, 2010 and December 31, 2009, this non-controlling interest had a carrying value of $51.2 million and $47.7 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, 2010, borrowings under the credit agreement totaled $542.9 million, including borrowings under the build-out sub-facility of $319.5 million. As of September 30, 2010, the build-out sub-facility commitment with Denali was $334.5 million, $15.0 million of which was unused at such date. Leap s board of directors has authorized the Company to increase the build-out sub-facility to $394.5 million. The Company does not anticipate making any future increases to the size of the build-out sub-facility beyond the amount authorized by Leap s board of directors. 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. Outstanding principal and accrued interest are amortized in quarterly installments commencing April 2017.

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. Under the management services agreement, Denali License retains full control and authority over its business strategy, finances, wireless license, network equipment, facilities and operations, including its product offerings, terms of service and pricing. The initial term of the management services agreement expires in 2016. The management services agreement may be terminated by Denali License or Cricket if the other party materially breaches its obligations under the agreement or by Denali License for convenience upon prior written notice to Cricket.

On March 17, 2010, Cricket and Denali License agreed, subject to certain conditions, to waive the obligation of Denali License to pay a share of the Company s corporate and regional overhead costs with respect to the services provided by Cricket under the management services agreement during 2010 and 2011. Cricket and Denali License also agreed, subject to certain conditions, to waive the payment of royalty fees due to Cricket for use of its trademarks during 2010 and 2011.

Purchase Agreement and Savary Island Venture

On September 21, 2010, Cricket entered into an agreement to acquire the 17.5% controlling interest in Denali held by DSM. Upon the closing of the transaction, Denali and its subsidiaries will become wholly owned subsidiaries of Cricket. The purchase price will include up to approximately $58 million in cash (depending on the timing of the closing) and a five-year $45.5 million promissory note. In addition, on September 21, 2010, Denali entered into an agreement with Ring Island to contribute all of its spectrum outside its Chicago and South Wisconsin operating markets and a related spectrum lease to Savary Island, a newly formed venture, in exchange for an 85% non-controlling interest. Denali will retain the spectrum and assets relating to its Chicago and Southern Wisconsin operating markets. The closings of both transactions are subject to customary closing conditions, including the approval of FCC, and the closing of Cricket s acquisition of DSM s controlling interest in Denali is subject to the prior closing of the Savary Island transaction. For more information regarding these transactions, see Note 7. Significant Acquisitions, Dispositions and Other Agreements.

Value of Redeemable Non-controlling Interests

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

	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Beginning balance, January 1	$ 71,632	$ 71,879
Purchase of CSM membership units	(20,973)	
Purchase of WLPCS membership units	(3,188)	
Accretion of redeemable non-controlling interests, before tax	3,765	3,913
Ending balance, September 30	$ 51,236	$ 75,792

Non-controlling Interests Assets and Liabilities

The aggregate carrying amount and classification of Denali s significant assets and liabilities, excluding intercompany accounts and transactions, as of September 30, 2010 and December 31, 2009 are presented in the following table below (in thousands):

	September 30, 2010	December 31, 2009
Assets		
Cash and cash equivalents	$ 30,642	$ 5,416
Short-term investments		2,731
Inventories	1,835	4,149
Other current assets	5,801	3,588
Property and equipment, net	211,710	236,171
Wireless licenses	298,991	298,757
Liabilities		
Accounts payable and accrued liabilities	$ 5,447	$ 5,453
Other current liabilities	11,097	13,570
Other long-term liabilities	9,449	6,915

Note 9. Commitments and Contingencies

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

The Company believes that any damage amounts alleged by plaintiffs 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 whether the amount 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 November 2, 2010, a matter between Freedom Wireless, Inc. (Freedom Wireless) and the Company was dismissed with prejudice following the parties entry on July 23, 2010 into a license agreement covering the patents at issue in the matter. The Company was sued by Freedom Wireless on December 10, 2007 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 the lawsuit and agreed to enter into a license agreement to provide Freedom Wireless with royalties on certain of the Company s products and services.

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. On December 14, 2009, DNT s patent was determined to be invalid in a case it brought against other wireless providers. DNT s lawsuit against the Company has been stayed, pending resolution of that other case.

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 January 5, 2010, this matter was stayed, pending final resolution of another case that DTL brought against another wireless provider in which it alleged infringement of the patent that is at issue in this matter. That other case has been settled and dismissed but the stay in the Company s matter has not been lifted.

Securities and Derivative Litigation

Leap was a nominal defendant in two shareholder derivative suits and a consolidated securities class action lawsuit. As indicated further below, each of these matters has been settled and the settlements have received final court approval.

The two shareholder derivative suits purported 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 asserted, among other things, claims for alleged breach of fiduciary duty, gross mismanagement, waste of corporate assets, unjust enrichment, and proxy violations based on the November 9, 2007 announcement that the Company was restating certain of its financial statements, claims alleging breach of fiduciary duty based on the September 2007 unsolicited merger proposal from MetroPCS Communications, Inc. and claims alleging illegal insider trading by certain of the individual defendants. Leap and the individual defendants filed motions to dismiss the federal action, and 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.

The parties in the federal action executed a stipulation of settlement dated May 14, 2010 to resolve both the federal and state derivative suits. The settlement was subject to final court approval, among other conditions. On September 20, 2010, the district court held a final fairness hearing to approve the settlement, and on September 22, 2010 the district court granted final approval of the settlement resulting in a release of the alleged claims against the individual defendants and their related persons. On September 22, 2010 a judgment was issued in the federal case, and on October 7, 2010 a dismissal with prejudice was entered in the state case. The settlement is based upon the Company s agreement to adopt and implement and/or continue to implement or observe various operational and corporate governance measures, and to fund, through its insurance carriers, an award of attorney s fees to plaintiffs counsel. The individual defendants denied liability and wrongdoing of any kind with respect to the claims made in the derivative suits and made no admission of any wrongdoing in connection with the settlement.

Leap and certain current and former officers and directors, and Leap s independent registered public accounting firm, PricewaterhouseCoopers LLP, also were 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 alleged 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 alleged that the defendants made false and misleading statements about Leap s internal controls, business and financial results, and customer count metrics. The claims were 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 sought, among other relief, a determination that the alleged claims could 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 did not name PricewaterhouseCoopers LLP or any of Leap s outside directors. Leap and the remaining individual defendants moved to dismiss the amended complaint.

The parties entered into a stipulation of settlement of the class action dated February 18, 2010. On October 4, 2010, the court held a fairness hearing regarding the settlement and granted final approval and issued a final judgment on October 14, 2010. The settlement provided for, among other things, dismissal of the lawsuits with prejudice, releases in favor of the defendants, and payment to the class of $13.75 million, which included an award of attorneys fees to class plaintiffs counsel. The entire settlement amount was paid by the Company s insurance carriers.

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 it 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 (the FCA) and is therefore liable for damages. On November 18, 2009, the DOJ presented the Company with a calculation that single damages in this matter were $2.7 million for the period from June 2003 through June 2006, which amount may be trebled under the FCA. The FCA also provides for statutory penalties, which the DOJ has previously asserted could total up to $11,000 per mailing. The DOJ had also previously asserted as an alternative theory of liability that the Company is liable on a basis of unjust enrichment for estimated single damages. The Company is currently in discussions with the DOJ to settle this matter.

Other Litigation, Claims and Disputes

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 or are otherwise immaterial and which 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.

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.

Device Purchase Agreements

The Company has entered into agreements with various suppliers for the purchase of wireless devices. These agreements require the Company to purchase specified quantities of devices based on either its short-term projections ranging from one to three months or, with respect to one purchase agreement, based on minimum commitment levels through July 2012. The total aggregate commitment outstanding under these agreements was approximately $312.8 million as of September 30, 2010.

Outstanding Letters of Credit and Surety Bonds

As of September 30, 2010 and December 31, 2009, the Company had approximately $10.1 million and $10.5 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, 2010 and December 31, 2009, the Company had approximately $5.6 million and $5.5 million, respectively, of surety bonds outstanding to guarantee the Company s performance with respect to certain of its contractual obligations.

Note 10. Guarantor Financial Information

The $2,500 million of senior notes issued by Cricket (the Issuing Subsidiary) are comprised of $1,100 million of unsecured senior notes due 2014, $300 million of unsecured senior notes due 2015 and

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$1,100 million of 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 Cricket License Company, LLC, a wholly owned subsidiary of Cricket (the Guarantor Subsidiary).

The indentures governing these notes limit, among other things, the Guarantor Parent Company s, Cricket s and the Guarantor Subsidiary s 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 Subsidiary, non-Guarantor Subsidiaries and total consolidated Leap and subsidiaries as of September 30, 2010 and December 31, 2009 and for the three and nine months ended September 30, 2010 and 2009 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, 2010 (unaudited and in thousands):

	Guarantor Parent Company	Issuing Subsidiary	Guarantor Subsidiary	Non-Guarantor Subsidiaries	Consolidating and Eliminating Adjustments	Consolidated
Assets						
Cash and cash equivalents	$ 56	$ 263,609	$	$ 44,630	$	$ 308,295
Short-term investments		256,303				256,303
Restricted cash, cash equivalents and short-term investments	2,067	1,426		10		3,503
Inventories		75,606		2,188		77,794
Deferred charges		40,318		26		40,344
Other current assets	213	76,695		6,370	(248)	83,030
Total current assets	2,336	713,957		53,224	(248)	769,269
Property and equipment, net		1,775,941		238,664		2,014,605
Investments in and advances to affiliates and consolidated subsidiaries	1,377,424	2,169,938	22,291		(3,569,653)	
Wireless licenses		7,890	1,577,972	334,144		1,920,006
Assets held for sale			4,002			4,002
Other intangible assets, net		21,359				21,359
Other assets	5,659	74,846		1,682		82,187
Total assets	$ 1,385,419	$ 4,763,931	$ 1,604,265	$ 627,714	$ (3,569,901)	$ 4,811,428
Liabilities and Stockholders Equity						
Accounts payable and accrued liabilities	$ 34	$ 295,154	$	$ 7,307	$	$ 302,495
Current maturities of long-term debt				12,096		12,096
Intercompany payables	39,255	269,910		13,472	(322,637)	
Other current liabilities	2,345	215,326		18,423	(248)	235,846
Total current liabilities	41,634	780,390		51,298	(322,885)	550,437
Long-term debt	250,000	2,476,909		797,369	(797,369)	2,726,909
Deferred tax liabilities		276,369				276,369
Other long-term liabilities		100,458		12,234		112,692

Total liabilities	291,634	3,634,126		860,901	(1,120,254)	3,666,407
Redeemable non-controlling interests				51,236		51,236
Stockholders equity (deficit)	1,093,785	1,129,805	1,604,265	(284,423)	(2,449,647)	1,093,785
Total liabilities and stockholders equity	$ 1,385,419	$ 4,763,931	$ 1,604,265	$ 627,714	$ (3,569,901)	$ 4,811,428

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Condensed Consolidating Balance Sheet as of December 31, 2009 (in thousands):

	Guarantor Parent Company	Issuing Subsidiary	Guarantor Subsidiary	Non-Guarantor Subsidiaries	Consolidating and Eliminating Adjustments	Consolidated
Assets						
Cash and cash equivalents	$ 66	$ 160,834	$	$ 14,099	$	$ 174,999
Short-term investments		386,423		2,731		389,154
Restricted cash, cash equivalents and short-term investments	2,231	1,625		10		3,866
Inventories		102,883		5,029		107,912
Deferred charges		38,872				38,872
Other current assets	83	69,009		3,619	493	73,204
Total current assets	2,380	759,646		25,488	493	788,007
Property and equipment, net	2	1,853,898		267,194		2,121,094
Investments in and advances to affiliates and consolidated subsidiaries	1,965,842	2,233,669	86,405	7,381	(4,293,297)	
Wireless licenses		7,889	1,580,174	333,910		1,921,973
Assets held for sale			2,381			2,381
Goodwill		430,101				430,101
Intangible assets, net		24,535				24,535
Other assets	6,663	74,558		2,409		83,630
Total assets	$ 1,974,887	$ 5,384,296	$ 1,668,960	$ 636,382	$ (4,292,804)	$ 5,371,721
Liabilities and Stockholders Equity						
Accounts payable and accrued liabilities	$ 16	$ 303,520	$	$ 6,850	$	$ 310,386
Current maturities of long-term debt				8,000		8,000
Intercompany payables	29,194	347,468		19,416	(396,078)	
Other current liabilities	5,147	172,202		18,803	495	196,647
Total current liabilities	34,357	823,190		53,069	(395,583)	515,033
Long-term debt	250,000	2,475,222		714,640	(704,544)	2,735,318
Deferred tax liabilities		259,512				259,512
Other long-term liabilities		90,233		9,463		99,696

Total liabilities	284,357	3,648,157		777,172	(1,100,127)	3,609,559
Redeemable non-controlling interests		23,981		47,651		71,632
Stockholders equity (deficit)	1,690,530	1,712,158	1,668,960	(188,441)	(3,192,677)	1,690,530
Total liabilities and stockholders equity	$ 1,974,887	$ 5,384,296	$ 1,668,960	$ 636,382	$ (4,292,804)	$ 5,371,721

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Condensed Consolidating Statement of Operations for the Three Months Ended September 30, 2010 (unaudited and in thousands):

	Guarantor Parent Company	Issuing Subsidiary	Guarantor Subsidiary	Non-Guarantor Subsidiaries	Consolidating and Eliminating Adjustments	Consolidated
Revenues:						
Service revenues	$	$ 515,874	$	$ 49,347	$ 16	$ 565,237
Equipment revenues		33,775		3,703		37,478
Other revenues		165	22,665	754	(23,584)	
Total revenues		549,814	22,665	53,804	(23,568)	602,715
Operating expenses:						
Cost of service (exclusive of items shown separately below)		185,812		17,634	(23,403)	180,043
Cost of equipment		106,240		14,033		120,273
Selling and marketing		87,807		11,135		98,942
General and administrative	3,737	81,177	173	4,280	(165)	89,202
Depreciation and amortization		102,730		11,325		114,055
Impairment of assets		476,024	766	537		477,327
Total operating expenses	3,737	1,039,790	939	58,944	(23,568)	1,079,842
Loss on sale or disposal of assets		(753)	(168)	(2)		(923)
Operating income (loss)	(3,737)	(490,729)	21,558	(5,142)		(478,050)
Equity in net loss of consolidated subsidiaries	(535,457)	(12,114)			547,571	
Equity in net loss of investees, net		(316)				(316)
Interest income	6,063	27,388		203	(33,442)	212
Interest expense	(3,152)	(63,252)		(27,509)	33,442	(60,471)
Other income, net		135				135
Income (loss) before income taxes	(536,283)	(538,888)	21,558	(32,448)	547,571	(538,490)
Income tax benefit		5,154				5,154
Net income (loss)	(536,283)	(533,734)	21,558	(32,448)	547,571	(533,336)
Accretion of redeemable non-controlling interests,		(1,723)		(1,224)		(2,947)

net of tax						
Net income (loss) attributable to common stockholders	$ (536,283)	$ (535,457)	$ 21,558	$ (33,672)	$ 547,571	$ (536,283)

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Condensed Consolidating Statement of Operations for the Nine Months Ended September 30, 2010 (unaudited and in thousands):

	Guarantor Parent Company	Issuing Subsidiary	Guarantor Subsidiary	Non-Guarantor Subsidiaries	Consolidating and Eliminating Adjustments	Consolidated
Revenues:						
Service revenues	$	$ 1,598,721	$	$ 148,289	$ 48	$ 1,747,058
Equipment revenues		131,383		11,769		143,152
Other revenues		227	70,805	2,264	(73,296)	
Total revenues		1,730,331	70,805	162,322	(73,248)	1,890,210
Operating expenses:						
Cost of service (exclusive of items shown separately below)		545,174		49,627	(73,021)	521,780
Cost of equipment		355,582		43,785		399,367
Selling and marketing		272,741		34,534		307,275
General and administrative	10,137	246,233	518	13,741	(227)	270,402
Depreciation and amortization		300,350		33,600		333,950
Impairment of assets		476,024	766	537		477,327
Total operating expenses	10,137	2,196,104	1,284	175,824	(73,248)	2,310,101
Loss on sale or disposal of assets		(2,916)	(168)	(780)		(3,864)
Operating income (loss)	(10,137)	(468,689)	69,353	(14,282)		(423,755)
Equity in net loss of consolidated subsidiaries	(621,163)	(26,483)			647,646	
Equity in net income of investees, net		1,142				1,142
Interest income	18,188	78,755		899	(96,908)	934
Interest expense	(9,443)	(189,658)		(78,869)	96,908	(181,062)
Other income, net		3,207				3,207
Income (loss) before income taxes	(622,555)	(601,726)	69,353	(92,252)	647,646	(599,534)
Income tax expense		(18,537)				(18,537)
Net income (loss)	(622,555)	(620,263)	69,353	(92,252)	647,646	(618,071)
Accretion of redeemable non-controlling interests,		(900)		(3,584)		(4,484)

net of tax												
Net income (loss) attributable to common stockholders	$	(622,555)	$	(621,163)	$	69,353	$	(95,836)	$	647,646	$	(622,555)

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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 investees, net		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 benefit (expense)		(9,358)				(9,358)
Net income (loss)	(64,573)	(68,613)	25,954	(52,065)	93,890	(65,407)
Accretion of redeemable non-controlling 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 investees, net		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 benefit (expense)		(29,412)				(29,412)

Net income (loss)		(177,620)		(183,299)		70,012		(135,862)		252,819		(173,950)
Accretion of redeemable non-controlling 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 Cash Flows for the Nine Months Ended September 30, 2010 (unaudited and in thousands):

	Guarantor Parent Company	Issuing Subsidiary	Guarantor Subsidiary	Non-Guarantor Subsidiaries	Consolidating and Eliminating Adjustments	Consolidated
Operating activities:						
Net cash provided by (used in) operating activities	$ (10)	$ 302,362	$	$ 24,052	$ (150)	$ 326,254
Investing activities:						
Purchases of property and equipment		(292,569)		(6,358)		(298,927)
Changes in prepayments for purchases of property and equipment		57				57
Purchases of and deposits for wireless licenses and spectrum clearing costs		(2,735)		(234)		(2,969)
Purchases of investments		(481,435)				(481,435)
Sales and maturities of investments		617,228		4,221		621,449
Investments in and advances to affiliates and consolidated subsidiaries	(660)				660	
Purchase of membership units of equity investment		(967)				(967)
Change in restricted cash		811				811
Net cash provided by (used in) investing activities	(660)	(159,610)		(2,371)	660	(161,981)
Financing activities:						
Issuance of related party debt		(15,000)		15,000		
Repayment of long-term debt				(6,000)		(6,000)
Purchase of non-controlling interest		(24,161)				(24,161)
Capital contributions, net		660			(660)	
Non-controlling interests distribution				(150)	150	
Proceeds from the issuance of common stock	660					660
Other		(1,476)				(1,476)
	660	(39,977)		8,850	(510)	(30,977)

Net cash provided by (used in) financing activities						
Net increase (decrease) in cash and cash equivalents	(10)	102,775		30,531		133,296
Cash and cash equivalents at beginning of period	66	160,834		14,099		174,999
Cash and cash equivalents at end of period	$ 56	$ 263,609	$	$ 44,630	$	$ 308,295

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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
Non-controlling 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

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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 2010 population estimates provided by Claritas Inc., a market research company.

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, 2009 filed with the Securities and Exchange Commission, or SEC, on February 26, 2010.

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 and service offerings, expand our retail distribution and execute effectively on our other strategic activities;
- our ability to obtain and maintain 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, including members of senior management;
- our ability to comply with the covenants in any credit agreement, indenture or similar instrument governing any of our existing or future indebtedness;
- our ability to integrate, manage and operate our new joint venture with Pocket Communications;

- failure of our network or information technology systems to perform according to expectations and risks associated with the upgrade or transition of certain of those systems, including our customer billing system; and

- other factors detailed in Part II Item 1A. Risk Factors below.

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

Overview

Company Overview

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

Cricket service is offered by Cricket, a wholly owned subsidiary of Leap. Cricket service is also offered in Oregon by LCW Wireless Operations, LLC, or LCW Operations; in the upper Midwest by Denali Spectrum Operations, LLC, or Denali Operations; and, commencing October 1, 2010, in South Texas by STX Wireless Operations, LLC, or STX Operations. We have entered into various transactions since June 30, 2010, with respect to these entities:

In August 2010, we acquired the remaining membership interests in LCW Wireless, LLC, the parent company of LCW Operations. As a result, LCW Wireless, LLC and its subsidiaries became wholly owned subsidiaries of Cricket.

In September 2010, we entered into an agreement to purchase the remaining interests in Denali Spectrum, LLC, or Denali, the parent company of Denali Operations. Cricket currently owns an 82.5% non-controlling interest in Denali, which was structured to qualify as a designated entity under Federal Communications Commission, or FCC, regulations. We consolidate our non-controlling interests in Denali in accordance with the authoritative guidance for the consolidation of variable interest entities because Denali is variable interest entity and we have entered into an agreement with Denali s other member which establishes a specified, minimum purchase price in the event that it offered or elected to sell its membership interest to us. Upon the closing of the transaction, Denali and its subsidiaries will become wholly owned subsidiaries of Cricket. In addition, in September 2010, Denali entered into an agreement to form a new venture to which Denali would contribute spectrum and a related spectrum lease in exchange for an 85% non-controlling interest. Denali will retain the spectrum and assets relating to its Chicago and Southern Wisconsin operating markets. The transactions under the purchase agreement and the contribution agreement are subject to customary closing conditions, including the approval of the FCC.

On October 1, 2010, we and various entities doing business as Pocket Communications, or Pocket, contributed substantially all of our respective wireless spectrum and operating assets in the South Texas region to STX Wireless, LLC, or STX Wireless, the parent company of STX Operations. STX Wireless is a newly formed joint venture controlled and managed by Cricket. At the closing, we received a 75.75% controlling interest in the joint venture and Pocket received a 24.25% non-controlling interest. Commencing October 1, 2010, STX Wireless began providing Cricket wireless service in South Texas with a network footprint covering 4.4 million POPs.

See Capital Expenditures and Other Asset Acquisitions and Dispositions for a more detailed description of these transactions.

As of September 30, 2010, Cricket service was offered in 35 states and the District of Columbia and had approximately 5.1 million customers. As of September 30, 2010, we and Denali owned wireless licenses covering an aggregate of approximately 184.2 million POPs (adjusted to eliminate duplication from overlapping licenses). The combined network footprint in our operating markets covered approximately 94.2 million POPs as of September 30,

2010. The licenses we and Denali 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 were to make available to us certain of its spectrum.

In addition to our Cricket network footprint, we have entered roaming relationships with other wireless carriers that enable us to offer customers purchasing our wireless services an extended, nationwide calling area covering approximately 283 million POPs. In August 2010, we entered into agreements which significantly expand our ability to provide nationwide voice and data services. We entered into a roaming agreement to provide our customers with nationwide data roaming services. In addition, we entered into a wholesale agreement with an affiliate of Sprint Nextel to permit us to offer Cricket wireless services outside of our current network footprint using Sprint s network. We believe that these new arrangements will enable us to offer enhanced products and service plans and to strengthen and improve our distribution.

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 plans include unlimited local and U.S. long distance service and unlimited text messaging. 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. 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. None of our services require customers to enter into long-term commitments or pass a credit check.

In August 2010, we revised certain features of a number of our Cricket service offerings. We introduced all-inclusive rate plans for all of our Cricket services in which we ceased separately charging customers for certain fees (such as activation, reactivation and regulatory fees) and telecommunications taxes. We also introduced new Cricket Broadband service plans, with prices that vary depending upon the targeted amount of data that a customer expects to use during the month. We eliminated the free month of service we previously provided to new customers of our Cricket Wireless and Cricket Broadband services that purchased a handset or modem and instead decreased the retail prices of many of our devices. We also eliminated certain late fees we previously charged to customers who reinstated their service after having failed to pay their monthly bill on time. Further, we introduced new smartphones and other handsets and devices beginning in August 2010 and revised features of our dealer compensation program to reduce some of their initial compensation and provide further incentive for them to retain customers. We believe that these new service plans, products and other changes will be attractive to customers and help improve our competitive positioning in the marketplace.

We believe that our business is scalable 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, over the past five years, we have pursued activities to significantly expand our business, both through the broadening of our product portfolio (including the introduction of our Cricket Broadband and Cricket PAYGo products) and distribution channels and the enhancement of network coverage and capacity in new and existing markets. In addition, as discussed above, we recently entered into a new wholesale agreement and nationwide data roaming agreement which we believe will enable us to offer enhanced products and service plans and to strengthen and improve our distribution. We also currently plan to deploy next-generation LTE network technology over the next few years. Other future business expansion activities could include the launch of new product and service offerings, the acquisition of additional spectrum through private transactions or FCC auctions, the build-out and launch of Cricket services in additional markets, entering into partnerships with others or the acquisition of other wireless communications companies or complementary businesses. We expect to continue to look for opportunities to optimize the value of our spectrum portfolio. Because some of the licenses that we and Denali 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. We intend to be disciplined as we pursue any expansion efforts and to remain focused on our position as a low-cost leader in wireless telecommunications.

Our customer activity is influenced by seasonal effects related to traditional retail selling periods and other factors that arise during the quarter or in connection with 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, device availability, economic conditions, high unemployment (particularly in the lower-income segment of our customer base) and competitive actions, any of which may have the ability to either offset or magnify certain seasonal effects or the relative amount of time a market has been in operation. From time to time, we have experienced inventory shortages, most notably with certain of our strongest-selling devices, including shortages we experienced during the second quarter of 2009 and again in the second and third quarters of 2010. These shortages have had the effect of limiting customer activity. From time to time, we also offer programs to help promote customer activity for our wireless services. For example, we utilize a program which allows existing customers to activate an additional line of voice service on a previously activated Cricket device 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, traditional landline service providers 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, and the evolving competitive landscape has negatively impacted our financial and operating results since early 2009. 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 August 2009 and March 2010, we revised a number of our Cricket Wireless service plans to provide additional features previously only available in our higher-priced plans, to eliminate certain fees we previously charged customers who changed their service plans and to include unlimited nationwide roaming and international long distance services. These changes, which were made in response to the competitive and economic environment, resulted in lower average monthly revenue per customer and increased costs. In August 2010 we introduced a number of new initiatives to respond to the evolving competitive landscape, including revising the features of a number of our Cricket service offerings, entering into a new wholesale and nationwide roaming agreement and introducing new smartphones and other handsets and devices. We believe that these new initiatives will be attractive to customers, will help improve our competitive positioning in the marketplace and will lead to improved financial and operational performance over the longer term, including higher average monthly revenue per customer and lower customer turnover. These initiatives, however, are significant undertakings, and we expect to incur additional expense in the near term as we implement these changes. The extent to which these new initiatives impact our future financial and operating results will depend upon customer acceptance of our new product and service offerings.

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 future capital markets transactions. See Liquidity and Capital Resources below.

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. Since the filing of our annual report on

Form 10-K for the year ended December 31, 2009, there have been no changes to our critical accounting policies and estimates except as follows:

Revenues

Our business revenues principally arise from the sale of wireless services, devices (handsets and broadband modems) and accessories. Wireless services are provided primarily on a month-to-month basis. In general, our customers are required to pay for their service in advance. Because we do not require customers to sign fixed-term contracts or pass a credit check, our services are available to a broader customer base than many other wireless providers and, as a result, some of our customers may be more likely to have service terminated due to an inability to pay. Consequently, we have concluded that collectability of our revenues is not reasonably assured until payment has been received. Accordingly, service revenues are recognized only after services have been rendered and payment has been received.

In August 2010, we introduced new rate plans for all of our Cricket services, ceased separately charging for certain fees (such as activation, reactivation and regulatory fees) and telecommunications taxes and ceased offering a free month of service to new Cricket Wireless and Cricket Broadband customers when they purchase a new device and activate service. Prior to August 2010, when we activated service for a new customer, we typically sold that customer a device bundled with a free period of service. Under the authoritative guidance for revenue arrangements with multiple deliverables, the sale of a device along with service constitutes a multiple element arrangement. Under this guidance, once a company has determined the fair value of the elements in the sales transaction, the total consideration received from the customer must be allocated among those elements on a relative fair value basis. Applying the guidance to these transactions results in us recognizing the total consideration received, less amounts allocated to the wireless service period (generally the customer s monthly rate plan), as equipment revenue.

Amounts allocated to equipment revenues and related costs from the sale of devices are recognized when service is activated by new customers. Revenues and related costs from the sale of accessories and upgrades for existing customers are recognized at the point of sale. The costs of devices and accessories sold are recorded in cost of equipment. In addition to devices that we sell directly to our customers at Cricket-owned stores, we sell devices to third-party dealers, including mass-merchant retailers. These dealers then sell the devices to the ultimate Cricket customer, similar to the sale made at a Cricket-owned store. Sales of devices to third-party dealers are recognized as equipment revenues only when service is activated by customers, since the level of price reductions and commissions ultimately available to such dealers is not reliably estimable until the devices are sold by such dealers to customers. Thus, revenues from devices sold to third-party dealers are recorded as deferred equipment revenue and the related costs of the devices are recorded as deferred charges upon shipment by us. The deferred charges are recognized as equipment costs when the related equipment revenue is recognized, which occurs when service is activated by the customer.

Through a third-party provider, our customers may elect to participate in an extended-warranty program for the devices they purchase. We recognize revenue on replacement devices sold to our customers under the program when the customer purchases the device.

Sales incentives offered to customers and commissions and sales incentives offered to our third-party dealers are recognized as a reduction of revenue when the related service or equipment revenue is recognized. Customers have limited rights to return devices and accessories based on time and/or usage, and customer returns of devices and accessories have historically been insignificant.

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

Universal Service Fund, E-911 and other telecommunications-related regulatory fees are assessed by various federal and state governmental authorities in connection with the services that we provide to our customers. We report these fees, as well as sales, use and excise taxes that are billed and collected from our customers, net of amounts remitted to the governmental authorities, as service revenues in the condensed consolidated statements of operations.

Impairment of Long-Lived Assets

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. An impairment loss may be required to be recognized when the undiscounted cash flows expected to be generated by a long-lived asset (or group of such assets) is less than its carrying value. Any required impairment loss would be measured as the amount by which the asset s carrying value exceeds its fair value and would be recorded as a reduction in the carrying value of the related asset and charged to results of operations.

As a result of the sustained decrease in our market capitalization, and in conjunction with the annual assessment of our goodwill, we tested our long-lived assets for potential impairment during the third quarter of 2010. Since our long-lived assets do not have identifiable cash flows that are largely independent of other asset groupings, we completed this assessment at the enterprise level. As required by the authoritative guidance for impairment testing, we compared our total estimated undiscounted future cash flows to the carrying value of our long-lived and indefinite-lived assets at September 30, 2010. Under this analysis, our total estimated undiscounted future cash flows were determined to have exceeded the total carrying value of our long-lived and indefinite-lived assets. If our total estimated undiscounted future cash flows calculated in this analysis were 10% less than those determined, they would continue to exceed the total carrying value of our long-lived and indefinite-lived assets. We estimated our future cash flows based on projections regarding our future operating performance, including projected customer growth, customer churn, average monthly revenue per customer and costs per gross additional customer. If our actual results were to materially differ from those projected, this failure could have a significant adverse effect on our estimated undiscounted future cash flows and could ultimately result in an impairment charge to our long-lived assets.

We believe that it is appropriate to evaluate the recoverability of our property and equipment and other long-lived assets based on the cash flows and carrying value of the assets of the entire company because we are unable to accurately attribute cash flows to lower level asset groupings which generate cash flows independently from other asset groupings, such as individual markets. Had lower level asset groupings and related cash flows been available for use in this evaluation, it is possible that the undiscounted cash flow test results may have been significantly different.

In connection with the analysis described above, we evaluated certain network design, site acquisition and capitalized interest costs relating to the expansion of our network which had been accumulated in construction-in-progress. In August 2010, we entered into a wholesale agreement with an affiliate of Sprint Nextel to permit us to offer Cricket wireless services outside our current network footprint using Sprint s network. We believe that this agreement will allow us to strengthen and expand our distribution and will provide us greater flexibility with respect to our network expansion plans. As a result, we have determined to spend an increased portion of our planned capital expenditures on the deployment of next-generation LTE technology and to defer our previously planned network expansion activities. As a result of these developments, the costs previously accumulated in construction-in-progress were determined to be impaired and we recorded an impairment charge of $46.5 million during the third quarter of 2010.

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 an impairment condition may exist. The annual impairment test is conducted during the third quarter of each year.

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 because these licenses are not functioning as part of a group with licenses in our operating markets. As of September 30, 2010, the carrying values of our operating and non-operating wireless licenses were $1,772.2 million and $147.8 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 impairment charges of $0.8 million during the three and nine months ended September 30, 2010 and an impairment charge of $0.6 million during the three and nine months ended September 30, 2009 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 value 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 10% decline in comparable sales prices would generally result in a 10% 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 comparable 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 13% from September 2009 to September 2010 (as adjusted to reflect the effects of our acquisitions and dispositions of wireless licenses during the period). As of September 30, 2010, the fair value of our wireless licenses significantly exceeded their carrying value. The aggregate fair value of our individual wireless licenses was $2,734.7 million, which when compared to their respective aggregate carrying value of $1,920.0 million, yielded significant excess fair value.

As of September 30, 2010, the aggregate fair value and carrying value of our individual operating wireless licenses was $2,518.2 million and $1,772.2 million, respectively. If the fair value of our operating wireless licenses had declined by 10% in such impairment test, we would not have recognized any impairment loss. As of September 30, 2010, the aggregate fair value and carrying value of our individual non-operating wireless licenses was $216.5 million and $147.8 million, respectively. If the fair value of our non-operating wireless licenses had declined by 10% as of September 30, 2010, we would have recognized an impairment loss of approximately $1.0 million.

Goodwill

During the third quarter each year, 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.

In connection with the annual impairment test in 2010, significant judgments were required in order to estimate our fair value. We based our determination of fair value primarily upon our average market capitalization for the month of August, plus a 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 considered the month of August to be an appropriate period over which to measure average market capitalization in 2010 because trading prices during that period reflected market reaction to our most recently announced financial and operating results, announced early in the month of August.

In conducting the annual impairment test during the third quarter of 2010, we applied a control premium of 30% to our average market capitalization. We believe that consideration of a control premium is customary in determining fair value, and is contemplated by the 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 control premium as part of our third quarter 2010 testing based upon our relevant transactional experience, a review of recent comparable telecommunications transactions and an assessment of market, economic and other factors. Depending on the circumstances, the actual amount of any control premium realized in any transaction involving our company could be higher or lower than the control premium we applied.

The carrying value of our goodwill was $430.1 million as of August 31, 2010. As of August 31, 2010, the book value of our net assets exceeded the fair value of our company, determined based upon our average market capitalization during the month of August 2010 and applying an assumed control premium of 30%. As a result, we performed the second step of the assessment to measure the amount of any impairment.

Under step two of the assessment, we performed a hypothetical purchase price allocation as if our company was being acquired in a business combination and estimated the fair value of the our identifiable assets and liabilities. This determination required us to make significant estimates and assumptions regarding the fair value of both our recorded and unrecorded assets and liabilities such as customer relationships, wireless licenses and property and equipment. This step of the assessment indicated that the implied fair value of our goodwill was zero, as the fair value of our identifiable assets and liabilities as of August 31, 2010 exceeded our fair value. As a result, we recorded a non-cash impairment charge of $430.1 million in the third quarter of 2010, reducing the carrying amount of our goodwill to zero.

On October 1, 2010, we and Pocket contributed substantially all of our respective wireless spectrum and operating assets in the South Texas region to STX Wireless, a newly formed joint venture controlled and managed by Cricket. We are in the process of determining the fair value of the net assets acquired and intend to include the final purchase price allocation and other required disclosures in our Annual Report on Form 10-K for the year ending December 31, 2010, which may result in a portion of the purchase price being allocated to goodwill on our consolidated balance sheet. The closing price of Leap common stock was $12.35 on September 30, 2010 and Leap s market capitalization was below our book value on such date. Since September 30, 2010, the closing price of Leap common stock has ranged from a high of $12.35 per share to a low of $10.76 per share on October 27, 2010. If the final purchase price allocation results in the recording of goodwill, and if the price of Leap common stock continues to trade at prices below book value per share, we expect that we will determine, in connection with our fourth quarter impairment evaluation, that we are required to recognize a non-cash impairment charge equal to the full amount of any goodwill recorded as part of this transaction. Any required impairment to goodwill would be a

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function of the impairment test being performed at the enterprise level and would not relate to the operating results of the acquired business or the purchase price allocation.

Results of Operations

Operating Items

The following tables summarize operating data for our consolidated operations for the three and nine months ended September 30, 2010 and 2009 (in thousands, except percentages):

	Three Months Ended September 30,					
	2010	% of 2010 Service Revenues	2009	% of 2009 Service Revenues	Change from Prior Year Dollars	Change from Prior Year Percent
Revenues:						
Service revenues	$ 565,237		$ 541,268		$ 23,969	4.4%
Equipment revenues	37,478		58,200		(20,722)	(35.6)%
Total revenues	602,715		599,468		3,247	0.5%
Operating expenses:						
Cost of service	180,043	31.9%	156,707	29.0%	23,336	14.9%
Cost of equipment	120,273	21.3%	133,502	24.7%	(13,229)	(9.9)%
Selling and marketing	98,942	17.5%	111,702	20.6%	(12,760)	(11.4)%
General and administrative	89,202	15.8%	87,077	16.1%	2,125	2.4%
Depreciation and amortization	114,055	20.2%	107,876	19.9%	6,179	5.7%
Impairment of assets	477,327	84.4%	639	0.1%	476,688	*
Total operating expenses	1,079,842	191.0%	597,503	110.4%	482,339	80.7%
Loss on sale or disposal of assets	(923)	(0.2)%	(591)	(0.1)%	(332)	56.2%
Operating income (loss)	$ (478,050)	(84.6)%	$ 1,374	0.3%	$ (479,424)	*

	Nine Months Ended September 30,					
	2010	% of 2010 Service Revenues	2009	% of 2009 Service Revenues	Change from Prior Year Dollars	Change from Prior Year Percent
Revenues:						
Service revenues	$ 1,747,058		$ 1,596,858		$ 150,200	9.4%
Equipment revenues	143,152		187,005		(43,853)	(23.5)%

Total revenues	1,890,210		1,783,863		106,347	6.0%
Operating expenses:						
Cost of service	521,780	29.9%	455,618	28.5%	66,162	14.5%
Cost of equipment	399,367	22.9%	419,073	26.2%	(19,706)	(4.7)%
Selling and marketing	307,275	17.6%	311,913	19.5%	(4,638)	(1.5)%
General and administrative	270,402	15.5%	274,192	17.2%	(3,790)	(1.4)%
Depreciation and amortization	333,950	19.1%	297,230	18.6%	36,720	12.4%
Impairment of assets	477,327	27.3%	639	0.0%	476,688	*
Total operating expenses	2,310,101	132.2%	1,758,665	110.1%	551,436	31.4%
Gain (loss) on sale or disposal of assets	(3,864)	(0.2)%	1,436	0.1%	(5,300)	(369.1)%
Operating income (loss)	$ (423,755)	(24.3)%	$ 26,634	1.7%	$ (450,389)	*

* Percentage change is not meaningful

The following tables summarize customer activity for the three and nine months ended September 30, 2010 and 2009:

For the Three Months Ended September 30(1):	**2010**	**2009**	**Change Amount**	**Change Percent**
Gross customer additions	644,387	851,230	(206,843)	(24.3)%
Net customer additions (losses)	(199,949)	116,182	(316,131)	(272.1)%
Weighted-average number of customers	5,131,982	4,555,605	576,377	12.7%

For the Nine Months Ended September 30(1):	**2010**	**2009**	**Change Amount**	**Change Percent**
Gross customer additions	2,460,700	2,532,074	(71,374)	(2.8)%
Net customer additions	134,103	811,702	(677,599)	(83.5)%
Weighted-average number of customers	5,185,976	4,348,973	837,003	19.2%
As of September 30:				
Total customers	5,088,208	4,656,362	431,846	9.3%

(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, 2010 Compared to Three and Nine Months Ended September 30, 2009

Service Revenues

Service revenues increased $24.0 million, or 4.4%, for the three months ended September 30, 2010 compared to the corresponding period of the prior year. This increase resulted from a 12.7% increase in average total customers. This increase was partially offset by a 6.5% decline in average monthly revenues per customer. The decline in average monthly revenues per customer was primarily attributable to the elimination of certain late payment and reactivation fees in August 2010, and the increase in the number of customers using our Cricket Broadband and Cricket PAYGo services, which are generally priced lower than our most popular Cricket Wireless service plans.

Service revenues increased $150.2 million, or 9.4%, for the nine months ended September 30, 2010 compared to the corresponding period of the prior year. This increase resulted from a 19.2% increase in average total customers. This increase was partially offset by a 8.0% decline in average monthly revenues per customer. The decline in average monthly revenues per customer was primarily attributable to the increase in the number of customers using our Cricket Broadband and Cricket PAYGo services, which are generally priced lower than our most popular Cricket Wireless service plans.

Equipment Revenues

Equipment revenues decreased $20.7 million, or 35.6%, for the three months ended September 30, 2010 compared to the corresponding period of the prior year. The decline in equipment revenues resulted from a 9.8% decrease in the number of devices sold and a reduction in the average revenue per device sold. The reduction in the average revenue per device sold was primarily due a reduction in the average selling price of our devices to new and upgrading customers and an increase in commissions paid to dealers which are recorded as a reduction of equipment revenue.

Equipment revenues decreased $43.9 million, or 23.5%, for the nine months ended September 30, 2010 compared to the corresponding period of the prior year. A 8.8% increase in the number of devices sold was offset by a reduction in the average revenue per device sold. The reduction in the average revenue per device sold was primarily due to various device promotions offered to customers, an increase in the number of customers purchasing our lower-priced devices, a reduction in the average selling price of our devices to new and upgrading customers and an increase in commissions paid to dealers which are recorded as a reduction of equipment revenue.

Cost of Service

Cost of service increased $23.3 million, or 14.9%, for the three months ended September 30, 2010 compared to the corresponding period of the prior year. As a percentage of service revenues, cost of service was 31.9% compared to 29.0% in the prior year period. Principal factors contributing to the increase in cost of service included increases in roaming and international long distance costs in connection with our introduction of unlimited nationwide roaming and international long distance services.

Cost of service increased $66.2 million, or 14.5%, for the nine months ended September 30, 2010 compared to the corresponding period of the prior year. As a percentage of service revenues, cost of service was 29.9% compared to 28.5% in the prior year period. Principal factors contributing to the increase in cost of service included increases in roaming and international long distance costs in connection with our introduction of unlimited nationwide roaming and international long distance services.

Cost of Equipment

Cost of equipment decreased $13.2 million, or 9.9%, for the three months ended September 30, 2010 compared to the corresponding period of the prior year. The decline in cost of equipment resulted primarily from a 9.8% decrease in the number of devices sold.

Cost of equipment decreased $19.7 million, or 4.7%, for the nine months ended September 30, 2010 compared to the corresponding period of the prior year. An 8.8% increase in the number of devices sold was offset by a reduction in the average cost per device sold, primarily due to benefits of scale and our cost-management initiatives.

Selling and Marketing Expenses

Selling and marketing expenses decreased $12.8 million, or 11.4%, for the three months ended September 30, 2010 compared to the corresponding period of the prior year. As a percentage of service revenues, such expenses decreased to 17.5% from 20.6% in the prior year period. This percentage decrease was largely attributable to a 1.9% decrease in media and advertising costs as a percentage of service revenues, reflecting higher spending in the third quarter of 2009 in connection with the launch of our new markets during 2009, and an increase in service revenues and consequent benefits of scale.

Selling and marketing expenses decreased $4.6 million, or 1.5%, for the nine months ended September 30, 2010 compared to the corresponding period of the prior year. As a percentage of service revenues, such expenses decreased to 17.6% from 19.5% in the prior year period. This percentage decrease was largely attributable to a 1.8% decrease in media and advertising costs as a percentage of service revenues, reflecting higher spending in the prior year period in connection with the launch of our two largest markets during 2009, and an increase in service revenues and consequent benefits of scale.

General and Administrative Expenses

General and administrative expenses increased $2.1 million, or 2.4%, for the three months ended September 30, 2010 compared to the corresponding period of the prior year. As a percentage of service revenues, such expenses decreased to 15.8% from 16.1% in the prior year period primarily due to an increase in service revenues and consequent benefits of scale and continued benefits realized from our cost-management initiatives.

General and administrative expenses decreased $3.8 million, or 1.4%, for the nine months ended September 30, 2010 compared to the corresponding period of the prior year. As a percentage of service revenues, such expenses decreased to 15.5% from 17.2% in the prior year period primarily due to an increase in service revenues and consequent benefits of scale and continued benefits realized from our cost-management initiatives.

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Depreciation and Amortization

Depreciation and amortization expense increased $6.2 million, or 5.7%, for the three months ended September 30, 2010 compared to the corresponding period of the prior year. The increase in depreciation and amortization expense was primarily due to an increase in property and equipment in connection with the build-out and launch of our new markets throughout 2009 and the improvement and expansion of our networks in existing markets.

Depreciation and amortization expense increased $36.7 million, or 12.4%, for the nine months ended September 30, 2010 compared to the corresponding period of the prior year. The increase in depreciation and amortization expense was primarily due to an increase in property and equipment in connection with the build-out and launch of our new markets throughout 2009 and the improvement and expansion of our networks in existing markets.

Impairment of Assets

As more fully described in Note 2 to our condensed consolidated financial statements, included in Part I-Item 1, Financial Statements in this report, as a result of our annual impairment testing of our goodwill conducted during the third quarter of 2010, we recorded a goodwill impairment charge of $430.1 million during the period ended September 30, 2010. No goodwill impairment charges were recorded during the period ended September 30, 2009.

As a result of our annual impairment testing of our wireless licenses conducted during the third quarters of 2010 and 2009, we recorded an impairment charge of $0.8 million and $0.6 million, respectively, to reduce the carrying values of certain non-operating wireless licenses to their fair values. No such impairment charges were recorded with respect to our operating wireless licenses for either period, as the aggregate fair values of these licenses exceeded their aggregate carrying value.

As a result of our determination to spend an increased portion of our planned capital expenditures on the deployment of next-generation LTE technology and to defer our previously planned network expansion activities, we also recorded an impairment charge of $46.5 million during the period ended September 30, 2010. These costs were previously included in construction-in-progress, for certain network design, site acquisition and interest costs capitalized during the construction period. No such impairment charges were recorded during the period ended September 30, 2009.

Gain (Loss) on Sale or Disposal of Assets

During the three months ended September 30, 2010 and 2009, we recognized losses of $0.9 million and $0.6 million, respectively, primarily related to the disposal of certain of our property and equipment.

During the nine months ended September 30, 2010, we recognized losses of $3.9 million primarily related to the disposal of certain of our property and equipment. In the first quarter of 2009 we recognized a non-monetary net gain of approximately $4.4 million upon the closing of a license exchange transaction. This net gain was partially offset by approximately $2.4 million in losses that we recognized upon the disposal of certain of our property and equipment during the first half of 2009.

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Non-Operating Items

The following tables summarize non-operating data for our consolidated operations for the three and nine months ended September 30, 2010 and 2009 (in thousands):

	Three Months Ended September 30,		
	2010	**2009**	**Change**
Equity in net income (loss) of investees, net	$ (316)	$ 996	$ (1,312)
Interest income	212	727	(515)
Interest expense	(60,471)	(59,129)	(1,342)
Other income (expense), net	135	(17)	152
Income tax benefit (expense)	5,154	(9,358)	14,512

	Nine Months Ended September 30,		
	2010	**2009**	**Change**
Equity in net income of investees, net	$ 1,142	$ 2,990	$ (1,848)
Interest income	934	2,314	(1,380)
Interest expense	(181,062)	(150,040)	(31,022)
Other income (expense), net	3,207	(126)	3,333
Loss on extinguishment of debt		(26,310)	26,310
Income tax benefit (expense)	(18,537)	(29,412)	10,875

Three and Nine Months Ended September 30, 2010 Compared to Three and Nine Months Ended September 30, 2009

Equity in Net Income (Loss) of Investees, Net

Equity in net income (loss) of investees, net reflects our share of net income and net losses of regional wireless service providers in which we hold investments.

Interest Income

Interest income decreased $0.5 million during the three months ended September 30, 2010 compared to the corresponding period of the prior year. This decrease was primarily attributable to a decline in interest rates from the corresponding period of the prior year.

Interest income decreased $1.4 million during the nine months ended September 30, 2010 compared to the corresponding period of the prior year. This decrease was primarily attributable to a decline in interest rates from the corresponding period of the prior year.

Interest Expense

Interest expense increased $1.3 million during the three months ended September 30, 2010 compared to the corresponding period of the prior year. This increase resulted primarily from the fact that we did not capitalize interest during the three months ended September 30, 2010 compared to $1.3 million of interest that we capitalized 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.

Interest expense increased $31.0 million during the nine months ended September 30, 2010 compared to the corresponding period of the prior year. The increase in interest expense resulted primarily from our issuance of $1,100 million of 7.75% senior secured notes due 2016 in June 2009. In addition, we did not capitalize interest during the nine months ended September 30, 2010 compared to $20.5 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.

Other Income (Expense), Net

During the nine months ended September 30, 2010, we recognized $3.2 million of gains in connection with the liquidation of certain of our investments in asset-backed commercial paper.

Loss on Extinguishment of Debt

In connection with our issuance of $1,100 million of 7.75% senior secured notes due 2016 in June 2009, we repaid all principal amounts outstanding under our former 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 former credit agreement and the $200 million revolving credit facility thereunder. As a result of the termination of the former 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 2010, 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 for income tax purposes. Because our projected 2010 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, we have computed our provision for income taxes for the three and nine months ended September 30, 2010 and 2009 by applying the actual effective tax rate to the year-to-date income.

During the three and nine months ended September 30, 2010, we recorded income tax benefit of $5.2 million and income tax expense of $18.5 million, respectively, compared to income tax expense of $9.4 million and $29.4 million for the three and nine months ended September 30, 2009, respectively. The decreases in income tax expense during the three and nine months ended September 30, 2010 compared to the prior year periods were primarily caused by a $15.5 million nonrecurring income tax benefit associated with the deferred tax effect related to the goodwill impairment charge recorded during the period ended September 30, 2010. In addition, we recorded a net income tax benefit of $4.1 million related to the deferred tax effect of our purchase of the remaining interest in LCW Wireless for the period ended September 30, 2010. These income tax benefits were partially offset during the period ended September 30, 2010 by an increase to tax expense from the deferred tax effect related to our investment in Denali. Our state tax rate for the three and nine months ended September 30, 2010 increased as a result of the expansion of our operating footprint in fiscal 2009 into new, higher-taxing states. During the period ended September 30, 2009, our state tax rate decreased as a result of the enactment of the California Budget Act of 2008, which was signed into law on February 20, 2009, and which will permit taxpayers to elect an alternative method to attribute taxable income to California for tax years beginning on or after January 1, 2011.

We expect that we will recognize income tax expense for the full year 2010 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 our investment in certain joint ventures as well as the amortization of wireless licenses 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 must then periodically assess the likelihood that our deferred tax assets will be recovered from future taxable income, which assessment requires significant judgment. Included in our deferred tax assets as of September 30, 2010 were federal NOL carryforwards of approximately $2.0 billion (which begin to expire in 2022) and state NOL carryforwards of approximately $2.1 billion ($21.9 million of which will expire at the end of 2010), 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 our periodic assessment of recoverability, we have weighed the positive and negative factors with respect to recoverability 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 the deferred tax assets will be realized, except with respect to the realization of a $2.0 million Texas Margins Tax credit. We will continue to closely monitor the positive and negative factors to assess whether we are required to maintain a valuation allowance. At such time as we determine that it is more likely than not that all or a portion of the deferred tax assets are realizable, the valuation allowance will be reduced or released in its entirety, with the corresponding benefit reflected in our tax provision.

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. Customers for our Cricket Wireless and Cricket Broadband services must generally pay their service amount by the payment due date or their 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. Calls attempted by suspended customers are directed to our customer service center in order to arrange payment. In order to re-establish Cricket Wireless or Cricket Broadband service, a customer must generally make all past-due payments. If new customers for our Cricket Wireless and Cricket Broadband service do not pay all amounts due on their bill for their second month of service within 30 days of the due date, the account is disconnected and deducted from gross customer additions during the month in which their service was discontinued. If Cricket Wireless or Cricket Broadband customers make payment on their bill for their second month of service and in a subsequent month do not pay all amounts due within 30 days of the due date, their 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 average 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; churn, which measures turnover in our customer base; and adjusted OIBDA, which measures operating performance. ARPU, CPGA, CCU and adjusted OIBDA 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 ARPU, CPGA, CCU and adjusted OIBDA 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, 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. Under our current revenue recognition policy, regulatory fees and telecommunications taxes that are billed and collected from our customers are reported as service revenues net of amounts that we remit to government agencies. Effective August 2010 with the launch of our new all-inclusive service plans, we no longer bill and collect these fees and taxes from customers, although we incur a reduction to our reported service revenues when we remit these fees and taxes to governmental agencies. As a result, for purposes of our calculation of ARPU, these fees and taxes with respect to our all-inclusive plans have been added back to service revenues. In a corresponding adjustment described below, these fees and taxes remitted with respect to our all-inclusive plans have been added to our cost of service for purposes of calculating CCU.

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 yet to disconnect service because they have either not paid their last bill or have not replenished or topped up their account, 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 and third-party commissions unrelated to the 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 the initial customer acquisition includes the revenues and costs associated with the sale of wireless devices to existing customers as well as costs associated with device replacements and repairs (other than warranty costs which are the responsibility of the device manufacturers). Commissions unrelated to the initial customer acquisition are commissions paid to third parties for certain activities related to the continuing service of customers. We deduct customers who do not pay their monthly bill for their second month of service 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 and third-party commissions unrelated to the initial customer acquisition (which includes the gain or loss on the sale of devices to existing customers, costs associated with device replacements and repairs (other than warranty costs which are the responsibility of the device manufacturers) and commissions paid to third parties for certain activities related to the continuing service of customers), 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. In connection with the launch of our new all-inclusive service plans in August 2010, regulatory fees and telecommunications taxes with respect to these plans that we pay and no longer bill and collect from our customers have been added to cost of service for purposes of calculating CCU. 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 monthly bill for their second month of service 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.

Adjusted OIBDA is a non-GAAP financial measure defined as operating income (loss) before depreciation and amortization, adjusted to exclude the effects of: gain/(loss) on sale/disposal of assets; impairment of assets; and share-based compensation expense. Adjusted OIBDA should not be construed as an alternative to operating income or net income as determined in accordance with GAAP, or as an alternative to cash flows from operating activities as determined in accordance with GAAP or as a measure of liquidity.

In a capital-intensive industry such as wireless telecommunications, management believes that adjusted OIBDA and the associated percentage margin calculations are meaningful measures of our operating performance. We use adjusted OIBDA as a supplemental performance measure because management believes it facilitates comparisons of our operating performance from period to period and comparisons of our operating performance to that of other companies by backing out potential differences caused by the age and book depreciation of fixed assets (affecting relative depreciation expenses) as well as the items described above for which additional adjustments were made. While depreciation and amortization are considered operating costs under generally accepted accounting principles, these expenses primarily represent the non-cash current period allocation of costs associated with long-lived assets acquired or constructed in prior periods. Because adjusted OIBDA facilitates internal comparisons of our historical operating performance, management also uses this metric for business planning purposes and to measure our performance relative to that of our competitors. In addition, we believe that adjusted OIBDA and similar measures are widely used by investors, financial analysts and credit rating agencies as measures of our financial performance over time and to compare our financial performance with that of other companies in our industry.

Adjusted OIBDA has limitations as an analytical tool, and should not be considered in isolation or as a substitute for analysis of our results as reported under GAAP. Some of these limitations include:

it does not reflect capital expenditures;

although it does not include depreciation and amortization, the assets being depreciated and amortized will often have to be replaced in the future and adjusted OIBDA does not reflect cash requirements for such replacements;

it does not reflect costs associated with share-based awards exchanged for employee services;

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it does not reflect the interest expense necessary to service interest or principal payments on current or future indebtedness;

it does not reflect expenses incurred for the payment of income taxes and other taxes; and

other companies, including companies in our industry, may calculate this measure differently than we do, limiting its usefulness as a comparative measure.

Management understands these limitations and considers adjusted OIBDA as a financial performance measure that supplements but does not replace the information provided to management by our GAAP results.

The following table shows metric information for the three months ended September 30, 2010 and 2009 (in thousands, except ARPU, CPGA, CCU and Churn):

	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009
ARPU	$ 37.02	$ 39.60
CPGA	$ 219	$ 208
CCU	$ 19.83	$ 17.73
Churn	5.5%	5.4%
Adjusted OIBDA	$ 123,237	$ 121,487

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.

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

	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009
Service revenues	$ 565,237	$ 541,268
Plus applicable regulatory fees and telecommunications taxes remitted for our all-inclusive service plans	4,669	
Total service revenues used in the calculation of ARPU	$ 569,906	$ 541,268
Weighted-average number of customers	5,131,982	4,555,605
ARPU	$ 37.02	$ 39.60

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):

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	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009
Selling and marketing expense	$ 98,942	$ 111,702
Less share-based compensation expense included in selling and marketing expense	(1,577)	(1,866)
Plus cost of equipment	120,273	133,502
Less equipment revenue	(37,478)	(58,200)
Less net loss on equipment transactions and third-party commissions unrelated to the initial customer acquisition	(38,833)	(7,708)
Total costs used in the calculation of CPGA	$ 141,327	$ 177,430
Gross customer additions	644,387	851,230
CPGA	$ 219	$ 208

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, 2010	Three Months Ended September 30, 2009
Cost of service	$ 180,043	$ 156,707
Plus general and administrative expense	89,202	87,077
Less share-based compensation expense included in cost of service and general and administrative expense	(7,405)	(9,141)
Plus net loss on equipment transactions and third-party commissions unrelated to the initial customer acquisition	38,833	7,708
Plus applicable regulatory fees and telecommunications taxes remitted for our all-inclusive service plans	4,669	
Total costs used in the calculation of CCU	$ 305,342	$ 242,351
Weighted-average number of customers	5,131,982	4,555,605
CCU	$ 19.83	$ 17.73

Adjusted OIBDA The following table reconciles adjusted OIBDA to operating income (loss), which we consider to be the most directly comparable GAAP financial measure to adjusted OIBDA (in thousands):

	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009

Operating income (loss)	$ (478,050)	$ 1,374
Plus depreciation and amortization	114,055	107,876
OIBDA	$ (363,995)	$ 109,250
Less (gain) loss on sale or disposal of assets	923	591
Plus impairment of assets	477,327	639
Plus share-based compensation expense	8,982	11,007
Adjusted OIBDA	$ 123,237	$ 121,487

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Liquidity and Capital Resources