INTERLEUKIN GENETICS INC
Form DEF 14A
April 30, 2009

Use these links to rapidly review the document

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

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant ý

Filed by a Party other than the Registrant o

Check the appropriate box:

o Preliminary Proxy Statement

o **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

ý Definitive Proxy Statement

o Definitive Additional Materials

o Soliciting Material Pursuant to §240.14a-12

INTERLEUKIN GENETICS, INC.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

ý No fee required.

o Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

o Fee paid previously with preliminary materials.

o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

Table of Contents

INTERLEUKIN GENETICS, INC.

135 BEAVER STREET
WALTHAM, MA 02452

PROXY STATEMENT
APRIL 29, 2009

Dear Stockholder,

We cordially invite you to attend our 2009 annual meeting of stockholders to be held at 10:00 a.m. on Friday, June 12, 2009 at the offices of Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., our legal counsel, located at The Chrysler Center, 666 Third Avenue, New York, NY 10017. The attached notice of annual meeting and proxy statement describe the business we will conduct at the meeting and provide information about Interleukin Genetics, Inc. that you should consider when you vote your shares.

When you have finished reading the proxy statement, please promptly vote your shares by marking, signing, dating and returning the proxy card in the enclosed envelope. We encourage you to vote by proxy so that your shares will be represented and voted at the meeting, whether or not you can attend.

Sincerely,

/s/ JAMES M. WEAVER

JAMES M. WEAVER
CHAIRMAN OF THE BOARD

Table of Contents

INTERLEUKIN GENETICS, INC.

135 BEAVER STREET
WALTHAM, MA 02452

NOTICE OF 2009 ANNUAL MEETING OF STOCKHOLDERS

TIME: 10:00 a.m.

DATE: June 12, 2009

PLACE: Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C.
The Chrysler Center, 666 Third Avenue, New York, NY 10017

PURPOSES:

1. To elect Mary E. Chowning as a Class III director for a three-year term expiring at our 2012 Annual Meeting or until her successor is elected and qualified.

2. To consider any other business that is properly presented at the meeting.

WHO MAY VOTE:

You may vote if you were the record owner of Interleukin Genetics, Inc. stock at the close of business on April 24, 2009. A list of stockholders of record will be available at the meeting and during the 10 days prior to the meeting, at the office of the Secretary, Interleukin Genetics, Inc., 135 Beaver Street, Waltham, Massachusetts 02452.

All stockholders are cordially invited to attend the annual meeting. Whether you plan to attend the annual meeting or not, you are requested to complete, sign, date and return the enclosed proxy card as soon as possible in accordance with the instructions on the proxy card.

BY ORDER OF THE BOARD OF DIRECTORS

/s/ KENNETH S. KORNMAN

KENNETH S. KORNMAN
SECRETARY

Table of Contents

TABLE OF CONTENTS

Table of Contents

INTERLEUKIN GENETICS, INC.

135 BEAVER STREET
WALTHAM, MA 02452
(781) 398-0700

PROXY STATEMENT FOR THE INTERLEUKIN GENETICS, INC. 2009 ANNUAL MEETING OF STOCKHOLDERS

GENERAL INFORMATION ABOUT THE ANNUAL MEETING

Why Did You Send Me this Proxy Statement?

We sent you this proxy statement and the enclosed proxy card because our Board of Directors is soliciting your proxy to vote at the 2009 annual meeting of stockholders and any adjournments of the meeting. This proxy statement summarizes the information you need to know to vote at the annual meeting.

On or about May 11, 2009 we are mailing this proxy statement, the attached notice of annual meeting and the enclosed proxy card to all stockholders entitled to vote at the meeting. Although not part of this proxy statement, we are also sending, along with this proxy statement, our 2008 Annual Report, which includes our financial statements for the fiscal year ended December 31, 2008.

Important Notice Regarding the Availability of Proxy Materials for the Shareholder Meeting to Be Held on June 12, 2009. The proxy statement for our 2009 annual meeting and our 2008 annual report to security holders are available at www.proxyvote.com.

Who Can Vote?

Only stockholders who owned our common stock or Series A Preferred Stock at the close of business on April 24, 2009 are entitled to vote at the annual meeting. On this record date, there were 32,010,837 shares of our common stock and 5,000,000 shares of our Series A Preferred Stock outstanding.

You do not need to attend the annual meeting to vote your shares. Shares represented by valid proxies, received in time for the meeting and not revoked prior to the meeting, will be voted at the meeting. A stockholder may revoke a proxy before the proxy is voted by delivering to our Secretary a signed statement of revocation or a duly executed proxy card bearing a later date. Any stockholder who has executed a proxy card but attends the meeting in person may revoke the proxy and vote at the meeting.

How Many Votes Do I Have?

Each share of our common stock that you own entitles you to one vote. On the record date, there were a total of 32,010,837 shares of common stock outstanding. Each share of our Series A Preferred Stock entitles the holder to approximately 5.63 votes. On the record date there were 5,000,000 shares of Series A Preferred Stock outstanding, entitling the holder of those shares to an aggregate of 28,160,200 votes.

How Do I Vote?

Whether you plan to attend the annual meeting or not, we urge you to vote by proxy. Voting by proxy will not affect your right to attend the annual meeting. If your shares are registered directly in

Table of Contents

your name through our stock transfer agent, Computershare Limited, or you have stock certificates, you may vote:

By mail. Complete and mail the enclosed proxy card in the enclosed postage prepaid envelope. Your proxy will be voted in accordance with your instructions. If you sign the proxy card but do not specify how you want your shares voted, they will be voted as recommended by our Board of Directors.

In person at the meeting. If you attend the meeting, you may deliver your completed proxy card in person or you may vote by completing a ballot, which will be available at the meeting.

If your shares are held in "street name" (held in the name of a bank, broker or other nominee), you must provide the bank, broker or other nominee with instructions on how to vote your shares and can do so as follows:

By Internet or by telephone. Follow the instructions you receive from your broker to vote by Internet or telephone.

By mail. You will receive instructions from your broker or other nominee explaining how to vote your shares.

In person at the meeting. Contact the broker or other nominee who holds your shares to obtain a broker's proxy card and bring it with you to the meeting. You will not be able to vote at the meeting unless you have a proxy card from your broker.

How Does the Board of Directors Recommend That I Vote on the Proposals?

The Board of Directors recommends that you vote "**FOR**" the election of Mary E. Chowning to serve as a Class III director for a three-year term expiring at our 2012 Annual Meeting or until her successor is elected and qualified.

If any other matter is presented at the annual meeting, the proxy card provides that your shares will be voted by the proxy holder listed on the proxy card in accordance with his or her best judgment. At the time this proxy statement was printed, we knew of no matters being presented at the annual meeting, other than those discussed in this proxy statement.

May I Revoke My Proxy?

If you give us your proxy, you may revoke it at any time before it is exercised. You may revoke your proxy in any one of the following ways:

signing a new proxy card and submitting it as instructed above;

if your shares are held in street name, re-voting by Internet or by telephone as instructed above. Only your latest Internet or telephone vote will be counted;

notifying our Secretary in writing before the annual meeting that you have revoked your proxy; or

attending the meeting in person and voting in person. Attending the meeting in person will not in and of itself revoke a previously submitted proxy unless you specifically request it.

What if I Receive More Than One Proxy Card?

You may receive more than one proxy card or voting instruction form if you hold shares of our common stock in more than one account, which may be in registered form or held in street name. Please vote in the manner described under "How Do I Vote?" for each account to ensure that all of your shares are voted.

Table of Contents

Will My Shares be Voted if I Do Not Return My Proxy Card?

If your shares are registered in your name or if you have stock certificates, they will not be voted if you do not return your proxy card by mail or vote at the meeting as described above under "How Do I Vote?" If your shares are held in street name and you do not provide voting instructions to the bank, broker or other nominee that holds your shares as described above under "How Do I Vote?," the bank, broker or other nominee has the authority to vote your unvoted shares on Proposal 1 even if it does not receive instructions from you. We encourage you to provide voting instructions. This ensures your shares will be voted at the meeting in the manner you desire. If your broker cannot vote your shares on a particular matter because it has not received instructions from you and does not have discretionary voting authority on that matter or because your broker chooses not to vote on a matter for which it does have discretionary voting authority, this is referred to as a "broker non-vote."

What Vote is Required to Approve the Proposal and How are Votes Counted?

Proposal 1: To elect Mary E. Chowning as a Class III Director of the Corporation	The affirmative vote of a plurality of our outstanding common stock present or represented by proxy and entitled to vote at the annual meeting is required to elect Mary E. Chowning as a Class III Director of the Corporation. Abstentions are not counted for purpose of electing directors. You may vote either FOR the nominee, or WITHHOLD your vote from the nominee. Votes that are withheld will not be included in the vote tally for the election of directors. Brokerage firms have authority to vote customers' unvoted shares held by the firms in street name on this proposal. If a broker does not exercise this authority, such broker non-votes will have no effect on the results of this vote.

Is Voting Confidential?

We will keep all the proxies, ballots and voting tabulations private. We will only let our Inspector of Elections, Computershare Limited, examine these documents. We will not disclose your vote to management unless it is necessary to meet legal requirements. We will, however, forward to management any written comments you make, on the proxy card or elsewhere.

What Are the Costs of Soliciting these Proxies?

We will pay all of the costs of soliciting these proxies. We plan to retain Broadridge Financial Services, Inc. to assist in the distribution of proxies and accompanying materials to brokerage houses and institutions for an estimated fee of $10,000 plus expenses. In addition, our directors and employees may solicit proxies in person or by telephone, fax or email. We will pay these employees and directors no additional compensation for these services. We will ask banks, brokers and other institutions, nominees and fiduciaries to forward these proxy materials to their principals and to obtain authority to execute proxies. We will then reimburse them for their expenses.

What Constitutes a Quorum for the Meeting?

The presence, in person or by proxy, of the holders of a majority of the outstanding shares of our common stock constitutes a quorum for this meeting. Votes of stockholders of record who are present at the meeting in person or by proxy, abstentions, and broker non-votes are counted for purposes of determining whether a quorum exists.

Table of Contents

Attending the Annual Meeting

The annual meeting will be held at 10:00 a.m. on Friday, June 12, 2009 at the offices of Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., our legal counsel, located at The Chrysler Center, 666 Third Avenue, New York, NY 10017. When you arrive at the meeting, signs will direct you to the appropriate meeting rooms. You need not attend the annual meeting in order to vote. Instead, you may vote your shares by marking, signing, dating and returning the enclosed proxy card.

Householding of Annual Disclosure Documents

In December 2000, the Securities and Exchange Commission adopted a rule concerning the delivery of annual disclosure documents. The rule allows us or your broker to send a single set of our annual report and proxy statement to any household at which two or more of our stockholders reside, if we or your broker believe that the stockholders are members of the same family. The rule applies to our annual reports, proxy statements and information statements. We do not engage in this practice, referred to as "householding," however your broker or other nominee may. Once you receive notice from your broker that communications to your address will be "householded," the practice will continue until you are otherwise notified or until you revoke your consent to the practice. Each stockholder will continue to receive a separate proxy card or voting instruction card.

If your household received a single set of disclosure documents this year, but you would prefer to receive your own copy, please contact our transfer agent, Computershare Limited, by calling them at 1-818-502-1404.

If you do not wish to participate in "householding" and would like to receive your own set of our annual disclosure documents in future years, follow the instructions described below. Conversely, if you share an address with another one of our shareholders and together both of you would like to receive only a single set of our annual disclosure documents, follow these instructions:

- If your shares of our common stock are registered in your own name, please contact our transfer agent, and inform them of your request by calling them at 1-818-502-1404 or writing them at 1745 Gardena Avenue, Glendale, CA 91204-2991.

- If a broker or other nominee holds your shares, please contact the broker or other nominee directly and inform them of your request. Be sure to include your name, the name of your brokerage firm and your account number.

Table of Contents

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information with respect to the beneficial ownership of our common stock as of February 20, 2009 for (a) the executive officers named in the Summary Compensation Table of this proxy statement, (b) each of our directors and director nominees, (c) all of our current directors and executive officers as a group, and (d) each stockholder known to us to beneficially own more than five percent of our common stock. Beneficial ownership is determined in accordance with the rules of the SEC and includes voting or investment power with respect to the securities. We deem shares of common stock that may be acquired by an individual or group within 60 days following February 20, 2009 pursuant to the exercise of options or warrants to be outstanding for the purpose of computing the percentage ownership of such individual or group, but are not deemed to be outstanding for the purpose of computing the percentage ownership of any other person shown in the table. Except as otherwise indicated, we believe that the stockholders named in the table have sole voting and investment power with respect to all shares of common stock shown to be beneficially owned by them based on information provided to us by these stockholders. Percentage ownership is based on a total of 31,830,887 shares of our common stock issued and outstanding on February 20, 2009.

Name and Address of Beneficial Owner(1)	Amount and Nature of Beneficial Ownership	Percent
Pyxis Innovations, Inc. 7575 Fulton Street, East Ada, MI 49355	35,748,692(2)	58.90%
Stephen Garofalo Six Teal Court New City, NY 10956	3,233,467(3)	10.16%
Jeffrey K. Peterson 1707 Waldenmere Street Sarasota, FL 34239	2,374,237(4)	7.46%
Named Executive Officers		
Lewis H. Bender	416,136(5)	1.31%
Kenneth S. Kornman, DDS, Ph.D.	1,514,973(6)	4.76%
Eliot M. Lurier	26,500	*
Directors		
James M. Weaver	(7)	*
Glenn S. Armstrong, Ph.D.	(8)	*
George D. Calvert	(9)	*
Mary E. Chowning	20,000	*
Thomas R. Curran, Jr.	(10)	*
All current executive officers and directors as a group (8 persons)	1,977,609(11)	6.21%

* Represents less than 1% of the issued and outstanding shares.

(1) Unless otherwise indicated, the address for each person is our address at 135 Beaver Street, Waltham, MA 02452.

(2) Based solely on a Schedule 13D/A Amendment No. 8 filed on March 26, 2009 with the SEC by Pyxis Innovations Inc., which reported ownership as of March 10, 2009. Includes 5,000,000 shares of Series A Preferred Stock presently convertible into 28,160,200 shares of common stock.

Table of Contents

(3) Based solely on a Schedule 13G/A Amendment No. 7 filed on January 17, 2007 with the SEC by Mr. Garofalo, which reported ownership as of December 31, 2006. Mr. Garofalo is the beneficial owner as follows: (i) 2,368,500 of these shares are owned directly by Mr. Garofalo; (ii) 50,000 of these shares are owned by Mr. Garofalo's spouse; and (iii) 814,967 of these shares are owned by First Global Technology Corp. ("First Global"). Mr. Garofalo is the controlling stockholder of First Global and, as such, has voting and investment power of those shares of common stock owned by First Global.

(4) Based solely on a Schedule 13G/A Amendment No. 3 filed on January 16, 2008 with the SEC by Mr. Peterson, which reported ownership as of December 31, 2007.

(5) Includes 200,000 shares of common stock issuable upon exercise of options held by Mr. Bender within 60 days following February 20, 2009.

(6) Includes 898,723 shares of common stock held by a limited partnership of which Dr. Kornman is a general partner. As such, Dr. Kornman may be deemed the beneficial owner of these shares. Dr. Kornman disclaims beneficial ownership of these shares. Includes 495,000 shares of common stock issuable upon exercise of options held by Dr. Kornman within 60 days following February 20, 2009.

(7) Although appointed as a Series A director by Pyxis Innovations Inc., we have been advised that Mr. Weaver does not, directly or indirectly, have voting or investment power over the shares of stock held by Pyxis.

(8) Although appointed as a Series A director by Pyxis Innovations Inc., we have been advised that Dr. Armstrong does not, directly or indirectly, have voting or investment power over the shares of stock held by Pyxis.

(9) Although appointed as a Series A director by Pyxis Innovations Inc., we have been advised that Dr. Calvert does not, directly or indirectly, have voting or investment power over the shares of stock held by Pyxis.

(10) Although appointed as a Series A director by Pyxis Innovations Inc., we have been advised that Mr. Curran does not, directly or indirectly, have voting or investment power over the shares of stock held by Pyxis.

(11) See footnotes 5 through 10 above.

Table of Contents

MANAGEMENT

Set forth below is the name of the individual nominated as a Class III director for election at the 2009 annual meeting, our other six directors whose terms do not expire this year and our executive officers, their ages, their position in the Company, their principal occupations or employment for at least the past five years, the length of their tenure as directors and, for our directors, the names of other public companies in which they hold directorships.

Name	Age	Position with the Company
Lewis H. Bender	50	Director, Chief Executive Officer
Kenneth S. Kornman, DDS, Ph.D.	61	Director, President, Chief Scientific Officer
Eliot M. Lurier	50	Chief Financial Officer & Treasurer
James M. Weaver(1)	44	Director and Chairman of the Board
Glenn S. Armstrong, Ph.D.(2)(3)	58	Director
George D. Calvert, Ph.D.(2)(3)	44	Director
Mary E. Chowning(1)(2)	47	Director
Thomas R. Curran Jr.(1)(3)	50	Director

(1) Member of our Audit Committee

(2) Member of our Nominating Committee

(3) Member of our Compensation Committee

LEWIS H. BENDER has been our Chief Executive Officer since January 22, 2008, and became a Director on July 24, 2008. Prior to joining us and since 1993, Mr. Bender worked in various capacities at Emisphere Technologies, Inc., a biopharmaceutical company that develops oral forms of injectable drugs. Those positions included Chief Technology Officer from May 2007 to January 2008, President and Interim Chief Executive Officer from January 2007 to May 2007, Member of the Office of the President from 2002 to January 2008, Senior Vice President of Business Development from 1997 to 2007, Vice President of Business Development from 1995 to 1997 and Director of Business Development from 1993 to 1995. Prior to joining Emisphere Technologies, Inc., Mr. Bender worked as a Production Planning Specialist at F. Hoffmann La-Roche AG, a Product Manager at Métaux Précieux SA Metalor and in various managerial capacities at Handy and Harman. Mr. Bender earned an MBA from the University of Pennsylvania's Wharton School of Business, an MA in International Studies from the University of Pennsylvania's School of Arts and Sciences and an MS and a BS in Chemical Engineering from Massachusetts Institute of Technology.

KENNETH S. KORNMAN, DDS, Ph.D. is our co-founder, President and Chief Scientific Officer. He joined the Board of Directors on August 17, 2006. Prior to founding the Company in 1986, Dr. Kornman was a Department Chairman and Professor at The University of Texas Health Center at San Antonio. He has also been a consultant and scientific researcher for many major oral care and pharmaceutical companies. Dr. Kornman currently holds an academic appointment at Harvard University. He holds six patents in the pharmaceutical area, has published three books and more than 100 articles and abstracts and has lectured and consulted worldwide on the transfer of technology to clinical practice. Dr. Kornman also holds an MS (Periodontics) and Ph.D. (Microbiology-Immunology) from the University of Michigan.

Table of Contents

ELIOT M. LURIER has been our Chief Financial Officer since April 30, 2008. He became Treasurer on July 24, 2008. Prior to joining the Company and since April 2005, Mr. Lurier was Vice President, Finance and Administration and Chief Financial Officer of Nucryst Pharmaceuticals, where he assisted in its initial public offering and was responsible for the company's reporting to the Securities and Exchange Commission and the implementation of Sarbanes-Oxley requirements. From April 2004 to March 2005, Mr. Lurier served as Chief Financial Officer and Chief Operating Officer for Bridge Pharmaceuticals, Inc., where he established financial policies for managing business operations. From 1983 to 2004, Mr. Lurier held a number of senior-level financial positions, including Chief Financial Officer of Admetric Biochem, Inc., and Chief Financial Officer, Treasurer and Vice President of Finance of Ascent Pediatrics, Inc. From 1981 to 1983, Mr. Lurier was an auditor at Coopers and Lybrand in Boston, MA. He earned a B.S. in Accounting from Syracuse University in 1980 and is a Certified Public Accounting in Massachusetts.

JAMES M. WEAVER joined the Board of Directors in July 2007 and was appointed Chairman of the Board in September 2007. He is Vice President of Alticor Corporate Enterprises, a member of the Alticor Inc. family of companies, which is engaged in the principal business of offering products, business opportunities, and manufacturing and logistics services in more than 80 countries and territories worldwide. In this role, Mr. Weaver is responsible for managing the current portfolio of Alticor's companies and directs its acquisition and growth. Prior to joining Alticor, Mr. Weaver worked for X-Rite Inc. where he held various leadership positions, including Senior Vice President and General Manager, Vice President of marketing and software development, Vice President of marketing and product development, as well as lead executive on several acquisitions. Mr. Weaver also founded and held the position of President and Chief Executive Officer of Bold Furniture Inc, and has held various leadership positions at Steelcase Inc. and Bissell Inc. Mr. Weaver received a Bachelor's degree in general studies from the University of Michigan in Ann Arbor. He also completed a consumer marketing course at the Kellogg School of Management at Northwestern University in Evanston, Ill. He holds professional memberships in the American Marketing Association, the Product Development Management Association, and the Design Management Institute, and serves on several non-profit and private company boards.

GLENN S. ARMSTRONG, Ph.D. joined the Board of Directors on July 24, 2008. Dr. Armstrong is Vice President of Corporate/Business Innovations for Alticor Inc. and leads Alticor's Growth Through Innovation initiative. He joined Alticor in July 2007 from the Wm. Wrigley Jr. Company, where he was senior director and lead scientist of the company's New Ventures Group & Mergers and Acquisitions. Dr. Armstrong is the former founder and president of Armstrong Sargent Group, Inc., a marketing, research and development, and technology assessment consulting firm. He also held marketing, innovation and product development, and science research positions with Whirlpool Corp., Quaker Oats Company, and General Mills, Inc. Dr. Armstrong earned a Bachelor of Science degree in botany from Eastern Illinois University in Charleston, Ill. He received a Master of Science degree in food science, and a Ph.D. in food science from Purdue University in West Lafayette, Ind. He also studied with a research team as a research chemist at Massachusetts Institute of Technology.

GEORGE D. CALVERT, Ph.D. joined the Board of Directors as a Series A Director in connection with our transactions with Pyxis Innovations Inc. effective March 24, 2003. In March 2009 Dr. Calvert, was appointed Vice President, Supply Chain and Research & Development for Amway. In his current role, Dr. Calvert is responsible for global manufacturing, sourcing, logistics, facilities and all technical functions for Amway. Previously, he held the positions of Vice President, Research & Development/Quality Assurance, Director of Quality Assurance/Analytical Services and Senior Manager Home Tech Research & Development at Amway. Dr. Calvert earned a Ph.D. in Analytical Chemistry from the University of South Carolina and a Bachelor of Science degree in Chemistry from the College of William and Mary.

Table of Contents

MARY E. CHOWNING served as Vice President, Chief Financial Officer and Secretary of X-Rite Inc., from July 28, 2003 to July 5, 2006. Ms. Chowning served as an Executive Vice President, Chief Financial Officer and Secretary of X-Rite Inc., from July 5, 2006 to March 3, 2008 and also served as its Principal Accounting Officer from July 28, 2003 to March 3, 2008. Ms. Chowning retired from X-Rite Inc. on April 15, 2008. Prior to X-Rite, she co-founded the Wind River group of companies and served as its Managing Member, as well as its Chief Financial Officer for four years. Ms. Chowning began her career with Arthur Andersen LLP and spent 14 years in Public Accounting where she served in various positions of increasing responsibility with public and private clients in manufacturing, consumer products, technology and various service industries. She was made a Partner in the firm in 1996. Ms. Chowning is currently a member of the Board of Directors of Fincor Holdings, Inc., a privately held medical malpractice insurance and consulting company. Ms. Chowning is a graduate of the University of California where she holds a Bachelor of Arts in Economics. She is a Certified Public Accountant in California and a member of the American Institute of Certified Public Accountants.

THOMAS R. CURRAN, JR. joined the Board of Directors as a Series A Director in connection with our transactions with Pyxis Innovations Inc. effective March 24, 2003. In addition to his role as director, he served as our Interim Chief Executive Officer from July 2, 2007 through January 21, 2008. Mr. Curran is employed as the Associate General Counsel of Alticor Inc., a company engaged in the principal business, through its affiliates, of offering products, business opportunities, and manufacturing and logistics services in more than 80 countries and territories worldwide, and which is the parent of Pyxis Innovations Inc. He has held this position for the past five years. Prior to joining Alticor, Mr. Curran was a partner in the law firm of Howard & Howard in Bloomfield Hills, Michigan. From 1982 to 1991, Mr. Curran worked for the Polaroid Corporation in various domestic and international financial and managerial positions. Mr. Curran holds a Bachelor of Arts from Providence College, a Master of International Management from the Thunderbird School of Global Management and a Juris Doctorate from Suffolk University Law School.

CORPORATE GOVERNANCE MATTERS

COMPOSITION OF OUR BOARD OF DIRECTORS

We are managed under the direction of our Board of Directors. Our Board of Directors currently consists of seven directors and is divided into three classes: Class I, Class II, and Class III. The holders of shares of our Series A Preferred Stock are entitled to elect up to four directors to our Board of Directors (the "Series A Directors"), who are not apportioned among classes. Each of the Series A Directors is nominated and elected by Pyxis Innovations Inc., as the sole holder of shares of our Series A Preferred Stock. On July 24, 2008, Dianne E. Bennett resigned from our Board of Directors and Glenn S. Armstrong was appointed to replace her, thereby resulting in James M. Weaver, Glenn S. Armstrong, George D. Calvert, and Thomas R. Curran as our current Series A Directors. On July 24, 2008, our Board of Directors amended and restated our bylaws to, among other things, create two new non-Series A directorships resulting in three directorships that are to be held by other than Series A Directors. In addition to incumbent director Kenneth S. Kornman, DDS, Ph.D., who is serving as a Class I Director until the 2010 Annual Meeting, on July 24, 2008, Lewis H. Bender was elected to serve as a Class II Director until the 2011 Annual Meeting, and Mary E. Chowning to serve as a Class III Director until the 2009 Annual Meeting.

DIRECTOR INDEPENDENCE

Our Board of Directors has determined that the following members qualify as independent directors under the definition promulgated by the NYSE Amex, LLC: Glenn S. Armstrong, Ph.D., George D. Calvert, Ph.D., Mary E. Chowning, Thomas R. Curran, Jr. and James M. Weaver.

COMMITTEES OF THE BOARD OF DIRECTORS AND MEETINGS

Committees. Our Board of Directors has established three standing committees, Audit, Compensation and Nominating, each as described below.

Meeting Attendance. During the fiscal year ended December 31, 2008, the Board of Directors met six times. Each of our Directors attended at least 75% of the aggregate of the meetings of the Board of Directors and committees of which they are a member. The Board of Directors has adopted a policy under which each member is encouraged to make every reasonable effort to attend each annual meeting of our stockholders. Two of the directors attended our 2008 annual meeting of stockholders.

AUDIT COMMITTEE AND FINANCIAL EXPERTS

The current members of our Audit Committee are Mary E. Chowning (Chair), James M. Weaver, and Thomas R. Curran, Jr. Our Audit Committee met seven times during the fiscal year ended December 31, 2008. Our Audit Committee is responsible for retaining and overseeing our independent accountants, approving the services performed by them and reviewing our annual financial statements, accounting policies and our system of internal controls. All members of the Audit Committee satisfy the current independence standards promulgated by the Securities and Exchange Commission and the NYSE Amex, LLC, as such standards apply specifically to members of audit committees. The Board of Directors has determined that Ms. Chowning and Mr. Weaver are each "audit committee financial experts" as the Securities and Exchange Commission has defined that term in Item 407 of Regulation S-K. A copy of the Audit Committee's written charter is publicly available on our website at www.ilgenetics.com.

COMPENSATION COMMITTEE

Our Compensation Committee currently consists of George D. Calvert (Chair), Glenn S. Armstrong, Ph.D, and Thomas R. Curran, Jr. Our Compensation Committee met two times during the fiscal year ended December 31, 2008. Our Compensation Committee reviews our compensation philosophy and programs, exercises authority with respect to the payment of salaries and incentive compensation to our directors and officers and makes recommendations to the Board of Directors regarding stock option grants under our 2000 Employee Stock Compensation Plan and 2004 Directors, Officers and Employees Stock Compensation Plan. The Compensation Committee is responsible for the determination of the compensation of our Chief Executive Officer, and conducts its decision making process with respect to that issue without the Chief Executive Officer present. All members of the Compensation Committee qualify as independent under the definitions promulgated by the NYSE Amex, LLC. A copy of the Compensation Committee's written charter is publicly available on our website at www.ilgenetics.com.

NOMINATING COMMITTEE

Our Nominating Committee currently consists of Glenn S. Armstrong, Ph.D. (Chair), George D. Calvert, and Mary E. Chowning. Our Nominating Committee did not meet during the fiscal year ended December 31, 2008. All members of the Nominating Committee qualify as independent under the definition promulgated by the NYSE Amex, LLC. This committee's role is to make recommendations to the Board of Directors as to the size and composition of the Board of Directors and to make recommendations as to the particular nominees. The Nominating Committee may consider candidates recommended by stockholders, as well as from other sources, such as other directors, or officers, third party search firms or other appropriate sources. For all potential candidates, the Nominating Committee may consider all factors it deems relevant, such as a candidate's personal integrity and sound judgment, business and professional skills and experience, independence, knowledge of the industry in which we operate, possible conflicts of interest, diversity, the extent to which the candidate would fill a present need on the Board of Directors, and concern for the long-term interests of the stockholders. In general, persons recommended by stockholders will be considered on the same basis as candidates from other sources. If a stockholder wishes to nominate a candidate to be considered for election as a director at the 2010 Annual Meeting of Stockholders using the procedures set forth in the Company's By-laws, it must follow the procedures described in "Stockholder Proposals and Nominations For Director" of this proxy statement. If a stockholder wishes simply to propose a candidate for consideration as a nominee by the Nominating Committee, it should submit any pertinent information regarding the candidate to the Chairman of the Nominating Committee by mail at Secretary, Interleukin Genetics, Inc., 135 Beaver Street, Waltham, Massachusetts 02452. A copy of the Nominating Committee's written charter is publicly available on our website at www.ilgenetics.com.

Compensation Committee Interlocks and Insider Participation

None of our executive officers serve on the Board of Directors or Compensation Committee of any entity that has one or more executive officers serving as a member of our Board of Directors or Compensation Committee. There is no family relationship between or among the directors (including the Series A Directors) or the executive officers.

Shareholder Communications to the Board

Generally, shareholders who have questions or concerns regarding Interleukin should contact Investor Relations at (781) 398-0700. However, any shareholders who wish to address questions regarding our business directly with the Board of Directors, or any individual director, should direct his or her questions in writing to the Chairman of the Board at Interleukin Genetics, Inc., 135 Beaver Street, Waltham, Massachusetts 02452. Communications will be distributed to the Board, or to any individual director or directors as appropriate, depending on the facts and circumstances outlined in the communications. Items that are unrelated to the duties and responsibilities of the Board may be excluded, such as:

- junk mail and mass mailings
- resumes and other forms of job inquiries
- surveys
- solicitations or advertisements.

In addition, any material that is unduly hostile, threatening, or illegal in nature may be excluded, provided that any communication that is filtered out will be made available to any outside director upon request.

Corporate Opportunity Agreement

We have agreed to certain terms for allocating opportunities as permitted under Section 122(17) of the Delaware General Corporation Law. This agreement, as set forth in the Series A Preferred Stock Purchase Agreement dated March 5, 2003, regulates and defines the conduct of certain of our affairs as they may involve Pyxis Innovations Inc. as our majority stockholder and its affiliates, and the powers, rights, duties and liabilities of us and our officers and directors in connection with corporate opportunities.

Except under certain circumstances, Pyxis and its affiliates have the right to engage in the same or similar activities or lines of business or have an interest in the same classes or categories of corporate opportunities as we do. If Pyxis, or one of our directors appointed by Pyxis and its affiliates acquire knowledge of a potential transaction or matter that may be a corporate opportunity for both Pyxis and its affiliates and us, to the fullest extent permitted by law, Pyxis and its affiliates will not have a duty to inform us about the corporate opportunity or be liable to us or to you for breach of any fiduciary duty as a stockholder of ours for not informing us of the corporate opportunity, keeping it for its own account, or referring it to another person.

Additionally, except under limited circumstances, if an officer or employee of Pyxis who is also one of our directors is offered a corporate opportunity, such opportunity shall not belong to us. In addition, we agreed that such director will have satisfied his duties to us and not be liable to us or to you in connection with such opportunity.

The terms of this agreement will terminate on the date that no person who is a director, officer or employee of ours is also a director, officer, or employee of Pyxis.

EXECUTIVE COMPENSATION

SUMMARY COMPENSATION TABLE

The following table sets forth the total compensation awarded or paid to, accrued or earned during the fiscal years ended December 31, 2008 and 2007 by our current Chief Executive Officer, our former Interim Chief Executive Officer, who served in that capacity for a portion of 2008, and our next two most highly compensated executive officers who were employed by us as of December 31, 2008 and whose total compensation exceeded $100,000 during the fiscal year ended December 31, 2008, which include our President and Chief Scientific Officer and our Chief Financial Officer. We refer to these individuals as our "Named Executive Officers."

Name and Principal Position	Fiscal Year	Salary ($)	Bonus ($)	Stock Awards ($)(1)(7)	Option Awards ($)(1)(7)	Non-Equity Incentive Plan Compensation ($)	Change in Pension Value and Nonqualified Deferred Compensation Earnings ($)	All Other Compensation ($)(8)	Total ($)
Lewis H. Bender Chief Executive Officer(2)	2008	$319,077	$108,150	$ 29,700	$ 75,193	$	$	$ 43,732	$575,853
Thomas R. Curran, Jr. Interim Chief Executive Officer(3)(4)	2008	$	$	$	$	$	$	$	$
	2007	$	$ 30,000	$	$	$	$	$	$ 30,000
Eliot M. Lurier Chief Financial Officer(5)	2008	$144,389	$ 54,240	$ 4,455	$ 5,905	$	$	$	$208,989
Kenneth S. Kornman President and Chief Scientific Officer(6)	2008	$338,692	$	$ 9,781	$ 5,011	$	$	$ 9,643	$363,127
	2007	$341,308	$	$ 10,219	$	$	$	$ 10,197	$361,724

(1) See Note 13 to our Consolidated Financial Statements reported in our Form 10-K for our fiscal year ended December 31, 2008 for details as to the assumptions used to determine the fair value of the stock awards.

(2) Mr. Bender joined the Company on January 22, 2008 as Chief Executive Officer. Mr. Bender received a sign on bonus of $35,000. In addition Mr. Bender received a total performance bonus of $102,850 of which $73,150 was paid in cash and $29,700 was paid in 110,000 shares of the Company's common stock valued at the closing price of $.27 on March 13, 2009 quoted on the NYSE Amex, LLC.

(3) Mr. Curran was appointed as the Company Interim Chief Executive Officer in July 2007.

In December, 2007, we entered into an agreement with Alticor, Inc., effective as of July 3, 2007, with respect to the services of Mr. Curran. Pursuant to the terms of the agreement, and in exchange for Mr. Curran's services as our Interim Chief Executive Officer during the term of the agreement, we agreed to pay directly to Alticor $30,000 per month, or a total of $180,000 for the year ended December 31, 2007, and $60,000 for the period ended February 29, 2008, when Mr. Curran completed the transition of being our Interim Chief Executive Officer.

Table of Contents

(4) On March 25, 2008, the Compensation Committee of our Board of Directors approved a one-time, completion-of-service, discretionary bonus of $30,000 for Thomas R. Curran, Jr. in recognition of Mr. Curran's performance as our Interim Chief Executive Officer from July 2007 through January 22, 2008.

(5) Mr. Lurier joined the Company on April 30, 2008 as Chief Financial Officer. Mr. Lurier received a sign on bonus of $15,000. In addition Mr. Lurier received a total performance bonus of $43,695 of which $39,240 was paid in cash and $4,455 was paid in 16,500 shares of the Company's common stock valued at the closing price of $.27 on March 13, 2009 quoted on the NYSE Amex, LLC.

(6) Dr. Kornman also held the position of Chief Executive Officer from March 31, 2006 through August 16, 2006.

(7) Represents the compensation expense incurred in fiscal 2007 & 2008 in connection with stock & option grants.

Mr. Bender received a stock option of 500,000 shares granted upon his joining the company of January 22, 2008.

Mr. Lurier received a stock option of 40,000 shares granted upon his joining the company of April 30, 2008.

Dr. Kornman received a stock option of 75,000 shares granted upon the signing of a new employment agreement on November 12, 2008.

Dr. Kornman received a stock option of 37,500 shares granted upon the signing of a new employment agreement on March 31, 2006 at 12,500 on each of the anniversary date.

(8) Mr. Bender received reimbursement for living expenses amounting to $42,232 and a $1,500 401K company contribution for the year ended December 31, 2008.

Dr. Kornman received reimbursement of $2,720 for Life Insurance in 2007 and 2008, and a car allowance of $7,477 and $6,923 in 2007 and 2008 respectively.

Narrative Disclosure to Summary Compensation Table

The compensation paid to our named executive officers in 2008 summarized in our Summary Compensation Table above is determined in accordance with employment agreements that we have entered into with each of our named executive officers (excluding our former Interim Chief Executive Officer, Mr. Curran). These agreements provide a compensation package, including severance benefits, to our named executive officers. The material terms of these agreements are discussed under the caption "Employment Agreements" below.

Table of Contents

OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END

The following table shows stock option awards outstanding (vested and unvested) and unvested stock awards outstanding as of December 31, 2008, including both awards subject to performance conditions and non-performance-based awards, for each of the executive officers in the Summary Compensation Table.

	Option Awards					Stock Awards			
Name	Number of Securities Underlying Unexercised Options Exercisable (#)	Number of Securities Underlying Unexercised Options Unexercisable (#)	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#)	Options Exercise Price ($)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested ($)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested ($)(1)
Thomas R. Curran, Jr.									
Lewis H. Bender	100,000	400,000		$ 1.06	1/22/2018				
Kenneth S. Kornman	13,750			$ 0.75	3/17/2009				
	40,000			$ 2.88	11/29/2009				
	150,000			$ 1.22	4/4/2011				
	30,000			$ 0.91	3/17/2012				
	30,000			$ 1.65	3/23/2013				
	30,000			$ 4.70	12/11/2013				
	150,000			$ 4.70	12/11/2013				
	30,000			$ 3.65	12/14/2014				
		25,000		$ 1.40	4/2/2018				
	30,000	45,000		$ 0.48	11/12/2018				
								12,500	2,500
Eliot M. Lurier		40,000		$ 1.49	4/30/2018				

(1) The market value of the stock awards is determined by multiplying the number of shares times $0.20, the closing price of our common stock on the NYSE Amex, LLC on December 31, 2008, the last trading day of our fiscal year.

Employment Agreements

Lewis H. Bender

Effective as of January 22, 2008, we entered into a two-year employment agreement with Lewis H. Bender for the position of Chief Executive Officer that provides for automatic annual renewal terms. The agreement also provides that Mr. Bender will serve as a member of our Board of Directors for as long as he serves as our Chief Executive Officer. The agreement provides for a minimum annual base salary of $340,000, a sign-on bonus of up to $35,000 payable over the first six months of employment and annual, discretionary bonuses of up to 50% of his base salary based upon our financial performance. In addition, the agreement provides for the reimbursement of Mr. Bender's relocation and living expenses for the first twelve months of employment. Upon hire, Mr. Bender was also granted an option to purchase 500,000 shares of our common stock at an exercise price equal to the closing price as reported on the NYSE Amex, LLC on the effective date of the agreement, which option shall vest in equal annual installments on the option grant date and February 1 of each of the years 2009, 2011, 2012, and 2013.

The agreement is terminable by us with immediate effect if with cause or upon thirty days prior written notice without cause and by Mr. Bender upon thirty days prior written notice with good reason or upon ninety days prior written notice without good reason. If we terminate Mr. Bender without cause or Mr. Bender terminates his employment with good reason, then we will pay Mr. Bender, in addition to any accrued, but unpaid compensation employment, twelve months of his base salary if the termination occurs within the second year of employment, and eighteen months of his base salary if the termination occurs at any time after the inception of his third year of employment. If we terminate

Table of Contents

Mr. Bender without cause or Mr. Bender terminates his employment with good reason after a change of control, then we will pay Mr. Bender, in addition to any accrued, but unpaid compensation prior to the termination, an amount equal to twelve months of his base salary if the termination occurs within the first year of employment, eighteen months of his base salary if the termination occurs within the second year of employment, and twenty-four months of his base salary if the termination occurs at any time after the inception of this third year of employment. The agreement provides that Mr. Bender will be prohibited, for a period of twelve months following the termination of Mr. Bender's employment with us, from accepting employment, or otherwise becoming involved, with one of our competitors, from providing services to others that might conflict with the our interests or our customers' or clients' interests, from sharing information or data pertaining to our customers or clients with others, from soliciting or attempting to take away our customers or clients, from recruiting or attempting to recruit or hire or attempt to hire any of our employees.

Kenneth S. Kornman, DDS, Ph.D.

On March 30, 2006, we entered into an Employment Agreement with our President, then-Chief Executive Officer, and Chief Scientific Officer, Kenneth S. Kornman. Under the Agreement, Dr. Kornman will be employed for a period of three years, will receive a base salary at an annual rate of $340,000 and will be eligible to receive annual bonuses solely at the discretion of the Board of Directors. While Dr. Kornman remains employed by us, he will receive a grant of 12,500 shares of our common stock on the first three anniversaries of March 30, 2006. Dr. Kornman will be entitled to participate in our employee benefit plans that we provide or may establish for the benefit of our executives management generally (for example, group life, disability, medical, dental and other insurance, retirement pension, profit-sharing and similar plans). While Dr. Kornman remains employed by us, he will receive $3,296 annually for reimbursement of life insurance premiums and $600 per month as an automobile allowance.

Pursuant to the Agreement, if Dr. Kornman is terminated for Cause (as defined in the Agreement) or leaves without Good Reason (as defined in the Agreement), we shall not be obligated to make any further payment to Dr. Kornman (other than accrued and unpaid base salary and expenses to the date of termination), or continue to provide any benefit (other than benefits which have accrued pursuant to any plan or by law) to Dr. Kornman under the Agreement. Under the Agreement termination as a result of Dr. Kornman's death or disability is treated effectively as a termination for Cause. If Dr. Kornman is terminated by us without Cause or if Dr. Kornman terminates his employment with us for Good Reason (as defined in the Agreement), then, in addition to the accrued salary and benefits, Dr. Kornman shall be entitled to: (i) salary continuation at the salary Dr. Kornman was receiving at the time of termination for a period of up to twelve (12) months following termination; and (ii) continued participation in any employee health plan to which Dr. Kornman was a participant prior to his termination, with the premiums paid on the same basis as when Dr. Kornman had participated as an employee, for up to twelve (12) months following termination.

If Dr. Kornman is terminated by us upon a Cessation of the Business (as defined in the Agreement) Dr. Kornman shall be entitled to (i) salary continuation at the salary Dr. Kornman was receiving at the time of termination for a period of up to three (3) months following termination; and (ii) continued participation in any employee health plan to which Dr. Kornman was a participant prior to his termination, with the premiums paid on the same basis as when Dr. Kornman had participated as an employee, for up to three (3) months following termination.

If Dr. Kornman is terminated by us without Cause (as defined in the Agreement), Dr. Kornman terminates his employment with us for Good Reason (as defined in the Agreement), or the term of the Agreement expires, then Dr. Kornman shall be permitted to exercise any then-outstanding stock options for a period of up to two years from such termination.

Table of Contents

On November 12, 2008, we entered into a new employment agreement with Dr. Kornman, as our President and Chief Scientific Officer, for a three-year term, commencing on March 31, 2009, which is the date after his current employment agreement expires. Under the new agreement, Dr. Kornman will receive an annual salary of $360,000 and will be eligible to receive annual bonuses solely at the discretion of the Board of Directors. Under the agreement, Dr. Kornman is entitled to receive a stock option to purchase 75,000 shares of common stock, at an exercise price equal to the closing price as reported on the NYSE Amex, LLC on the grant date. The option will vest with respect to 30,000 shares on the grant date of the option and with respect to 15,000 shares on each of March 31, 2010, 2011, and 2012. Under the agreement, Dr. Kornman will continue to be entitled to participate in employee benefit plans that we provide or may establish for the benefit of our executive management generally (for example, group life, disability, medical, dental and other insurance, retirement pension, profit-sharing and similar plans). In addition, while Dr. Kornman remains employed by us, we will reimburse him $3,296 annually for payment of life insurance premiums.

The agreement is terminable by us with immediate effect if with cause or upon thirty days prior written notice without cause. The agreement is terminable by Dr. Kornman upon thirty days prior written notice. If we terminate Dr. Kornman without cause or Dr. Kornman terminates his employment with good reason, then Dr. Kornman is entitled to, in addition to any accrued, but unpaid compensation prior to the termination, an amount equal to twelve months of his base salary and continued participation in any employee health plan for up to twelve months following termination. If we terminate Dr. Kornman in connection with a Cessation of our Business (as defined in the agreement), then Dr. Kornman is entitled to, in addition to any accrued, but unpaid compensation prior to the termination, an amount equal to three months of his base salary and continued participation in any employee health plan for up to three months following termination.

The agreement also provides that Dr. Kornman will be prohibited, for a period of twelve months following the termination of Dr. Kornman's employment with us, from accepting employment, or otherwise becoming involved, with one of our competitors, from providing services to others that might conflict with our interests or our customers' or clients' interests, from sharing information or data pertaining to our customers or clients with others, from soliciting or attempting to take away our customers or clients, and from recruiting or attempting to recruit or hire or attempt to hire any of our employees.

Eliot M. Lurier

Effective April 30, 2008, we entered into a one-year employment agreement with Eliot M. Lurier for the position of Chief Financial Officer that provides for automatic annual renewal terms. The agreement provides for a minimum annual base salary of $217,000, a sign-on bonus of up to $15,000 payable following the first four months of employment and annual, discretionary bonuses of up to 30% of his base salary in effect during the year for which the bonus relates. Bonuses will be determined by the Compensation Committee of the Board of Directors upon the suggestion of the Chief Executive Officer and will be based upon the employee's performance and the overall performance of the Company for the year. Upon hire, Mr. Lurier was also granted an option to purchase 40,000 shares of our common stock at an exercise price equal to the closing price as reported on the NYSE Amex, LLC on the grant date of the option. The option will vest in equal annual installments of 8,000 shares on each of the first five anniversaries of the grant date.

The agreement is terminable by (i) us with immediate effect if with cause or upon thirty days prior written notice if without cause, or (ii) Mr. Lurier upon thirty days prior written notice. If we terminate Mr. Lurier without cause and at any time following the three-month anniversary of April 30, 2008, then we will pay Mr. Lurier, in addition to any accrued, but unpaid, compensation prior to the termination, an amount equal to six months of his base salary in effect at the time of the termination and six

Table of Contents

months of continued healthcare coverage, to the same extent that we provided healthcare coverage during his employment, if Mr. Lurier elects to continue participation in our health plan.

Director Compensation

The following table shows the total compensation paid or accrued during the fiscal year ended December 31, 2008 to each of our non-executive directors.

Name (a)	Fees Earned or Paid in Cash ($)(b)	Option Awards ($)(d)	All Other Compensation ($)(g)	Total ($)(h)
Mary E. Chowning	$ 15,406	$ 1,679(1)	-0-	$ 17,085

(1) Represents the FAS 123R value attributable to the grant of 15,000 options to purchase our common stock upon her appointment to our Board of Directors on July 24, 2008.

The following is a description of the standard compensation arrangements under which our non-employee directors are compensated for their service as directors, including as members of the various committees of our board. Our policy is to pay each non-employee member of our Board of Directors $1,000 in cash compensation for each meeting of the Board of Directors attended in person by that director and 15,000 stock options to vest on the first anniversary of the grant date. Each of the current non-employee members of our Board of Directors who is also a Series A director declined such compensation for 2008 and thus we did not pay them for their Board service. In certain circumstances, we pay our non-employee directors annual board service and committee service retainers quarterly, which are pro-rated for partial service, if appropriate. All of the directors are, however, reimbursed for reasonable out-of-pocket expenses incurred in attending board and committee meetings. In July 2008, when our board elected Mary E. Chowning as a director who is not a Series A Director and not an executive director, we agreed to pay Ms. Chowning the following compensation:

- for service as a director, an annual retainer of $14,000 and $1,500 for each board meeting attended in person, by teleconference or by video;

- for service as the chair of our audit committee, an annual retainer of $7,500 and $1,500 for each audit committee meeting attended in person, by teleconference or by video; and

- for joining us as a director, a grant of 15,000 options to purchase our common stock at an exercise price equal to the closing price of our common stock on the grant date, which vests in equal annual installments on each of the four anniversaries of the grant date.

Table of Contents

EQUITY COMPENSATION PLAN INFORMATION

The following table provides certain aggregate information with respect to all of the Company's equity compensation plans in effect as of December 31, 2008.

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights		Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders(1)	1,766,523	$	2.23	1,426,928
Equity compensation plans not approved by security holders(2)	334,394		2.88	
Total	2,100,917	$	2.33	1,426,928

(1) These plans consist of our 1996 Equity Incentive Plan, our 2000 Employee Stock Compensation Plan and our 2004 Employee, Director and Consultant Stock Plan.

(2) These plans consist of the Non-Qualified Stock Option Agreements, between the Company and Philip R. Reilly, dated June 1, 1999 and November 30, 1999.

Summary Description of the Company's Non-Stockholder Approved Equity Compensation Plans

On June 1, 1999, we entered into a Non-Qualified Stock Option Agreement with Philip R. Reilly to induce him to enter a consulting services agreement dated the same day and to encourage him to become our Chairman of the Board of Directors. Pursuant to the Agreement, we granted Dr. Reilly the option to purchase 240,000 shares of our common stock at $.50 per share on or before the option's expiration date of June 1, 2009. These options vested in equal increments of 8,000 shares per month over thirty months and became fully vested on December 1, 2001. Dr. Reilly has exercised this option with respect to all 240,000 shares of common stock. The options are non-transferable.

On November 30, 1999, we entered into an additional Non-Qualified Stock Option Agreement with Philip R. Reilly to further induce him to become our Chairman of the Board of Directors. Pursuant to the Agreement, we granted Dr. Reilly the option to purchase 351,394 shares of our common stock at $2.875 per share on or before the option's expiration date of November 30, 2009. These options vested in equal increments of 9,760 shares per month over a period of thirty-six months and became fully vested on November 30, 2002. Dr. Reilly has exercised this option with respect to 17,000 shares of common stock. The options are non-transferable.

AUDIT COMMITTEE REPORT

The Audit Committee of the Board of Directors, which consists entirely of directors who meet the independence and experience requirements of the NYSE Alternext US, LLC, on which the company's shares are listed, has furnished the following report.

The Audit Committee assists the Board in overseeing and monitoring the integrity of our financial reporting process, compliance with legal and regulatory requirements and the quality of internal and external audit processes. The committee's role and responsibilities are set forth in our charter adopted by the Board, which is available on our website at www.ilgenetics.com. The committee reviews and reassesses our charter annually and recommends any changes to the Board for approval. The Audit Committee is responsible for overseeing our overall financial reporting process, and for the appointment, compensation, retention, and oversight of the work of Grant Thornton LLP, our independent auditors. In fulfilling its responsibilities for the financial statements for the fiscal year ended December 31, 2008, the Audit Committee took the following actions:

Reviewed and discussed the audited financial statements for the fiscal year ended December 31, 2008 with management and Grant Thornton LLP, our independent auditors;

Discussed with Grant Thornton LLP the matters required to be discussed by Statement on Auditing Standards No. 61, as amended, as adopted by the Public Company Accounting Oversight Board in Rule 3200T, relating to the conduct of the audit; and

Received written disclosures and the letter from Grant Thornton LLP regarding its independence in accordance with applicable requirements of the Public Company Accounting Oversight Board regarding Grant Thornton LLP's communications with the Audit Committee. The Audit Committee further discussed with Grant Thornton LLP their independence. The Audit Committee also considered the status of pending litigation, taxation matters and other areas of oversight relating to the financial reporting and audit process that the committee determined appropriate.

Based on the Audit Committee's review of the audited financial statements and discussions with management and Grant Thornton LLP, the Audit Committee recommended to the Board that the audited financial statements be included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2008 for filing with the SEC.

MEMBERS OF THE AUDIT COMMITTEE:
Mary E. Chowning (Chair)
Thomas R. Curran, Jr.
James M. Weaver

COMPLIANCE WITH SECTION 16(A) OF THE SECURITIES EXCHANGE ACT OF 1934

Our records reflect that all reports which were required to be filed pursuant to Section 16(a) of the Exchange Act were filed on a timely basis, except that an initial report of ownership on Form 3 and one report of changes in beneficial ownership on Form 4 were filed late by each of Mr. Bender and Mr. Lurier.

CODE OF CONDUCT AND ETHICS

We have adopted a corporate code of conduct and ethics that applies to all of our employees, including our chief executive officer and chief financial officer. The text of the corporate code of conduct and ethics is publicly available on our website at www.ilgenetics.com. Disclosure regarding any amendments to, or waivers from, provisions of the code of conduct and ethics that apply to our directors, principal executive and financial officers will be included in a Current Report on Form 8-K within four business days following the date of the amendment or waiver.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Pursuant to the written charter of our Audit Committee, the Audit Committee is responsible for reviewing and approving, prior to our entry into any such transaction, all transactions in which we are a participant and in which any of the following persons has or will have a direct or indirect material interest: our executive officers; our directors; the beneficial owners of more than 5% of our securities; the immediate family members of any of the foregoing persons; and any other persons whom the Board determines may be considered related persons, any such person being referred to as a "related person."

The following is a description of arrangements that we have entered into with related persons during the fiscal year ended December 31, 2008 and were approved by our Audit Committee. We believe that the transactions described below were made on terms no less favorable to us than could have been obtained from unaffiliated third parties.

Effective as of September 1, 2008, the Company and Access Business Group International LLC ("ABG"), an affiliate of Alticor Inc. and an affiliate of our primary stockholder, amended the formerly exclusive license agreement to render the license non-exclusive, thereby generally allowing the Company to license its intellectual property to third parties in addition to ABG. The parties also amended the license agreement to remove the right of first negotiation, which the Company had granted to ABG upon entry into the license agreement, for the commercialization of all of the Company's current and future intellectual property into products/services outside of the field of nutrigenomics and dermagenomics.

On August 17, 2006, the Company entered into a stock purchase agreement and further amended its note purchase agreement with Pyxis Innovations Inc. ("Pyxis"), an affiliate of Alticor and our primary stockholder, dated October 23, 2002, as amended, to, among other things, provide for the establishment of a $14.3 million convertible credit facility with Pyxis. Subject to certain customary conditions, the agreements contemplated that the Company could draw down against the convertible credit facility until August 17, 2008. On June 10, 2008, the Company drew down $4,000,000 under the convertible credit facility, leaving $10.3 million of available credit, and issued a convertible promissory note to Pyxis in that amount. On August 12, 2008, the Company and Pyxis amended the agreements to extend the expiration date of the credit facility to permit borrowing at any time prior to March 31, 2009.

On March 11, 2009, the Company entered into an amended and restated note purchase agreement, dated as of March 10, 2009, with Pyxis to extend the availability of the credit facility described below until March 31, 2010. The credit facility had been scheduled to expire on March 31, 2009. The original note purchase agreement, entered into on October 23, 2002, was subsequently amended on November 13, 2002, January 28, 2003, March 5, 2003, February 23, 2006, August 17, 2006 and August 12, 2008. Pursuant to the note purchase agreement, as so amended, Pyxis extended to the Company a credit facility in the amount of $14.3 million. In June 2008, the Company drew down $4.0 million under this credit facility, leaving $10.3 million of remaining availability. The Company may now borrow under the credit facility until March 31, 2010. All such borrowing becomes due on August 16, 2011 and is convertible into shares of common stock at a conversion price equal to $5.68 per share.

ANNUAL REPORT ON FORM 10-K; INCORPORATION BY REFERENCE

Our annual report on form 10-K for the year ended December 31, 2008, as filed with the SEC, is available on our website at www.ilgenetics.com. In addition, upon the written request of any record holder or beneficial owner of common stock entitled to vote at the Annual Meeting, we will provide, without charge, a copy this report (without exhibits). Requests should be directed to Investor Relations, Interleukin Genetics, Inc., 135 Beaver Street, Waltham, Massachusetts 02452.

To the extent this proxy statement has been or will be specifically incorporated by reference into any filing by Interleukin under the Securities Act of 1933, as amended, or the Exchange Act, the section of this proxy statement entitled "Audit Committee Report" shall not be deemed to be so incorporated unless specifically otherwise provided in any such filing.

Table of Contents

PRINCIPAL ACCOUNTANT FEES AND SERVICES

The following table presents fees for professional audit services rendered by Grant Thornton, LLP for the audit of the Company's annual financial statements for the years ended December 31, 2008 and December 31, 2007 and fees billed for other services rendered by Grant Thornton LLP during those periods.

	2008	2007
Audit fees(1)	$303,245	$441,647
Audit related fees		
Tax fees		
All other fees(2)	7,385	
Total	$310,630	$441,647

(1) Audit fees consist of fees for professional services rendered for the audit of the Company's annual financial statements, a review of the interim financial statements included in the quarterly reports and a review of internal controls over financial reporting (Section 404 of the Sarbanes-Oxley Act of 2002).

(2) All other fees consist of non audit service fees paid to our audit firm and approved by our audit committee.

Policy on Audit Committee Pre-Approval of Audit and Permissible Non-audit Services of Independent Auditors

Consistent with SEC policies regarding auditor independence, the Audit Committee has responsibility for appointing, setting compensation and overseeing the work of the independent auditor. In recognition of this responsibility, the Audit Committee has established a policy to pre-approve all audit and permissible non-audit services provided by the independent auditor.

Prior to the engagement of the independent auditor for the next year's audit, management will submit to the Audit Committee for approval a summary of the services expected to be rendered during that year for each of four categories of services.

1. ***Audit*** services include audit work performed in the preparation of financial statements, as well as work that generally only the independent auditor can reasonably be expected to provide, including comfort letters, statutory audits, and attest services and consultation regarding financial accounting and/or reporting standards.

2. ***Audit-Related*** services are for assurance and related services that are traditionally performed by the independent auditor, including due diligence related to mergers and acquisitions, employee benefit plan audits, and special procedures required to meet certain regulatory requirements.

3. ***Tax*** services include all services performed by the independent auditor's tax personnel except those services specifically related to the audit of the financial statements, and includes fees in the areas of tax compliance, tax planning, and tax advice.

4. ***Other Fees*** are those associated with services not captured in the other categories. The Company generally does not request such services from the independent auditor.

Prior to the engagement, the Audit Committee pre-approves these services by category of service. The fees are budgeted and the Audit Committee requires the independent auditor and management to report actual fees versus the budget periodically throughout the year by category of service. During the year, circumstances may arise when it may become necessary to engage the independent auditor for

Table of Contents

additional services not contemplated in the original pre-approval. In those instances, the Audit Committee requires specific pre-approval before engaging the independent auditor.

The Audit Committee may delegate pre-approval authority to one or more of its members. The member to whom such authority is delegated must report, for informational purposes only, any pre-approval decisions to the Audit Committee at its next scheduled meeting.

PROPOSAL 1: TO ELECT MARY E. CHOWNING TO SERVE AS A CLASS III DIRECTOR UNTIL THE 2012 ANNUAL MEETING OR UNTIL HER SUCCESSOR IS ELECTED AND QUALIFIED.

On March 4, 2009, the Board of Directors nominated Mary E. Chowning for election at the 2009 Annual Meeting. The Board of Directors currently consists of seven members, classified into three classes as follows: four members who are Series A Directors are not apportioned among the classes, Kenneth S. Kornman, DDS, Ph.D. constitutes Class I with a term ending in 2010; Lewis H. Bender constitutes Class II with a term ending in 2011; and Mary E. Chowning constitutes Class III with a term which expires at the upcoming Annual Meeting. At each Annual Meeting of Stockholders, directors are elected for a full term of three years to succeed those directors whose terms are expiring.

The Board of Directors has voted to nominate Mary E. Chowning for election at the 2009 Annual Meeting for a term of three years to serve until the 2012 Annual Meeting of Stockholders, and until her successor is elected and qualified. The Class I director will serve until the 2010 Annual Meeting and the Class II director will serve until the 2011 Annual Meeting of Stockholders, and, in each case, until their respective successors have been elected and qualified.

Ms. Chowning is an existing director of the Company, who was elected by the Board of Directors to fill a vacancy on July 24, 2008. Ms. Chowning has agreed to be named and has indicated her intent to serve if elected. Ms. Chowning's biographical information is contained in the section in this proxy statement entitled "Management."

Unless authority to vote for this nominee is withheld, the shares represented by the enclosed proxy will be voted **FOR** the election as director of Mary E. Chowning. In the event that the nominee becomes unable or unwilling to serve, the shares represented by the enclosed proxy will be voted for the election of such other person as the Board of Directors may recommend in her place. We have no reason to believe that the nominee will be unable or unwilling to serve as a director.

The enclosed form of the proxy provides a means for the holders of common stock to vote for the nominee listed or withhold authority to vote the nominee. Each properly executed proxy received in time for the 2009 Annual Meeting will be voted as specified, or if a shareholder does not specify in his or her executed proxy how the shares represented by his or her proxy are to be voted, the shares will be voted for the nominee listed or for another nominee as provided above. The director nominee receiving the affirmative vote of a plurality of our outstanding common stock present or represented by proxy and entitled to vote at the annual meeting will be elected as director. Abstentions and broker non-votes will not be included in the vote totals and, therefore, will not affect the outcome of the election.

The Board of Directors recommends a vote "FOR" the election of Mary E. Chowning as a Class III director, and proxies solicited by the Board will be voted in favor, unless a stockholder indicates otherwise on the proxy.

Table of Contents

OTHER MATTERS

The Board of Directors knows of no other business which will be presented at the Annual Meeting. If any other business is properly brought before the Annual Meeting, proxies in the enclosed form will be voted in accordance with the judgment of the persons voting the proxies.

STOCKHOLDER PROPOSALS AND NOMINATIONS FOR DIRECTOR

To be considered for inclusion in the proxy statement relating to our 2010 Annual Meeting of Stockholders, stockholder proposals, including nominations for director, must be received no later than January 1, 2010. To be considered for presentation at the 2010 Annual Meeting, although not included in the proxy statement, proposals must be received no later than April 13, 2010 and not before March 14, 2010. Proposals received after April 13, 2010 will not be voted on at the 2010 Annual Meeting. If a proposal is received before that date, the proxies that management solicits for the meeting may still exercise discretionary voting authority on the proposal under circumstances consistent with the proxy rules of the SEC. All stockholder proposals and nominations for director should be marked for the attention of Secretary, Interleukin Genetics, Inc., 135 Beaver Street, Waltham, Massachusetts 02452.

Waltham, Massachusetts
April 29, 2009

-height:120%;text-align:justify;font-size:10pt;">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 and Savary Island'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, 2011, the carrying values of the Company's and Savary Island's operating and non-operating wireless licenses were $1,778.6 million and $162.2 million, respectively. An impairment loss would be 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 would be recognized on the Company's and Savary Island'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 would be 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 also evaluated and adjusted for developments or changes in legal, regulatory and technical matters, and for demographic and economic factors, such as population size, unemployment rates, 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).

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. Spectrum auctions and comparable sales transactions in recent periods have resulted in modest increases to the aggregate fair value of the Company's and Savary Island's wireless licenses. In addition, favorable developments in technical matters such as spectrum clearing and device availability have positively impacted the fair value of a significant portion of their 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 the Company's and Savary Island's wireless licenses.

As of September 30, 2011, the aggregate fair value and carrying value of the Company's individual operating wireless licenses were $2,453.0 million and $1,778.6 million, respectively. No impairment charges were recorded during the three and nine months ended September 30, 2011 with respect to the Company's operating wireless licenses as the aggregate fair value of these licenses exceeded their aggregate carrying value. If the fair value of the Company's operating wireless licenses had declined by 10%, the Company would not have recognized any impairment loss.

As of September 30, 2011, the aggregate fair value and carrying value of the Company's and Savary Island's individual non-operating wireless licenses were $246.8 million and $162.2 million, respectively. The Company recorded an impairment charge of $0.4 million during the three and nine months ended September 30, 2011 to reduce the carrying values of certain non-operating wireless licenses to their estimated fair values. If the fair value of the Company's and Savary Island's non-operating wireless licenses had each declined by 10%, the Company would have recognized an impairment loss of approximately $2.2 million.

Goodwill

The Company assesses its goodwill for impairment annually at the reporting unit level by applying a fair value test. This fair value test involves a two-step process. The first step is to compare the book value of the Company's net assets to the fair value of such net assets. 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 test in 2011, the Company based its determination of fair value primarily upon its average market capitalization for the month of August 2011, 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 2011 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 2011, 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 2011 testing based upon its relevant transactional experiences 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.

As of September 30, 2011, the carrying value of the Company's goodwill was $31.7 million. Based upon its annual impairment test conducted during the third quarter of 2011, the Company determined that no impairment condition existed because the book value of the Company's net assets as of August 31, 2011 was $676.1 million and the fair value of the Company, based upon its average market capitalization during the month of August and an assumed control premium of 30%, was $848.4 million. Therefore, the Company was not required to perform the second step of the goodwill impairment test.

Based on the Company's annual impairment test conducted during the third quarter of 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 an assumed control premium of 30%. The Company therefore 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 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 30, 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 at that time to zero.

Recent Accounting Pronouncements

In May 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2011-04, "Fair Value Measurements (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs," ("ASU 2011-04"). ASU 2011-04 redefines many of the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements to ensure consistency between U.S. GAAP and IFRS. ASU 2011-04 also expands the disclosures for fair value measurements that are estimated using significant unobservable (Level 3) inputs. This new guidance is effective for the Company beginning in the first quarter of 2012 and is to be applied prospectively. The Company anticipates that the adoption of this standard will not significantly expand its condensed consolidated financial statement footnote disclosures.

In June 2011, the FASB issued Accounting Standards Update No. 2011-05, "Comprehensive Income (Topic 220): Presentation of Comprehensive Income," ("ASU 2011-05"). ASU 2011-05 eliminates the option to report other comprehensive income and its components in the statement of changes in equity. ASU 2011-05 requires that all nonowner changes in stockholders' equity be presented in either a single continuous statement of comprehensive income or in two separate but consecutive statements. This new guidance is effective for the Company beginning in the first quarter of 2012 and is to be applied retrospectively.

In September 2011, the FASB issued Accounting Standards Update No. 2011-08, "Goodwill Impairment Testing," ("ASU 2011-08"). ASU 2011-08 simplifies the requirements for testing for goodwill impairment and permits an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test as described in the authoritative guidance for goodwill. This new guidance is effective for the Company beginning in the first quarter of 2012 and will be applied prospectively. The Company anticipates that the adoption of this standard will not materially impact the Company or its condensed consolidated financial statement footnote disclosures.

8

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

	September 30, 2011	December 31, 2010
Other current assets:		
Accounts receivable, net(1)	$83,807	$50,750
Prepaid expenses	39,366	27,493
Other	20,480	12,767
	$143,653	$91,010
Property and equipment, net:		
Network equipment	$3,213,775	$3,095,793
Computer hardware and software	510,194	342,972
Construction-in-progress	74,778	146,973
Other	120,129	108,273
	3,918,876	3,694,011
Accumulated depreciation	(1,989,378)	(1,657,366)
	$1,929,498	$2,036,645
Intangible assets, net:		
Customer relationships	$57,782	$57,782
Trademarks	37,000	37,000
	94,782	94,782
Accumulated amortization of customer relationships	(29,152)	(12,980)
Accumulated amortization of trademarks	(18,941)	(16,959)
	$46,689	$64,843
Accounts payable and accrued liabilities:		
Trade accounts payable	$158,735	$205,824
Accrued payroll and related benefits	72,124	55,290
Other accrued liabilities	95,068	85,755
	$325,927	$346,869
Other current liabilities:		
Deferred service revenue(2)	$107,075	$97,679
Deferred equipment revenue(3)	36,601	26,564
Accrued sales, telecommunications, property and other taxes payable	32,889	44,942
Accrued interest	98,006	40,804
Other	16,296	11,088
	$290,867	$221,077

---

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

(3) Deferred equipment revenue relates to devices sold to third-party dealers which have not yet been purchased and activated by customers.

9

Note 4. Fair Value of Financial Instruments and Non-Financial Assets

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 the sale of an asset or paid upon the transfer of a liability in an orderly transaction between market participants at the measurement date. The degree of judgment utilized in measuring the fair value of assets and liabilities generally correlates to the level of pricing observability. Assets and liabilities with readily available, actively quoted prices or for which fair value can be measured from actively quoted prices in active markets generally have more pricing observability and require less judgment in measuring fair value. Conversely, assets and liabilities that are rarely traded or not quoted have less pricing observability and are generally measured at fair value using valuation models that require more judgment. These valuation techniques involve some level of management estimation and judgment, the degree of which is dependent on the price transparency of the asset, liability or market and the nature of the asset or liability.

The Company has categorized its assets and liabilities measured at fair value into a three-level hierarchy in accordance with the 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, 2011 or December 31, 2010.
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, 2011 and December 31, 2010 included its cash equivalents, its short-term investments in obligations of the U.S. government and government agencies and 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 did not have any Level 3 assets or liabilities as of September 30, 2011 or December 31, 2010, other than the non-financial assets measured at fair value on a nonrecurring basis discussed below.

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, 2011 and December 31, 2010 (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, 2011			
	Level 1	Level 2	Level 3	Total

Assets:				
Money market funds	$—	$251,175	$—	$251,175
Commercial paper	—	197,617	—	197,617
U.S. government or government agency securities	—	310,315	—	310,315
Total	$—	$759,107	$—	$759,107

	At Fair Value as of December 31, 2010			
	Level 1	Level 2	Level 3	Total
Assets:				
Money market funds	$—	$168,831	$—	$168,831
Commercial paper	—	17,494	—	17,494
U.S. government or government agency securities	—	108,364	—	108,364
Total	$—	$294,689	$—	$294,689

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

Unrealized gains (losses) are presented in accumulated other comprehensive loss within stockholders' equity 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, 2011 and December 31, 2010, 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 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.

Available-for-sale securities were comprised as follows as of September 30, 2011 and December 31, 2010 (in thousands):

	As of September 30, 2011	
	Cost	Fair Value
Money market funds	$251,175	$251,175
Commercial paper	197,616	197,617
U.S. government or government agency securities	310,316	310,315
	$759,107	$759,107

	As of December 31, 2010	
	Cost	Fair Value
Money market funds	$168,831	$168,831
Commercial paper	17,494	17,494
U.S. government or government agency securities	108,364	108,364
	$294,689	$294,689

Long-Term Debt

The Company reports 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 primarily by using quoted prices in active markets and was $3,056.9 million and $2,876.8 million as of September 30, 2011 and December 31, 2010, respectively.

Assets Measured at Fair Value on a Nonrecurring Basis

The tables below summarize the non-financial assets that were measured and recorded at fair value on a non-recurring basis as of September 30, 2011 and December 31, 2010 and the losses recorded during the three and nine months ended September 30, 2011 and the year ending December 31, 2010 on those assets (in thousands):

	At Fair Value as of September 30, 2011			
	Level 1	Level 2	Level 3	Losses
Assets:				
Wireless licenses	$—	$—	$9,115	$377
Total	$—	$—	$9,115	$377

	At Fair Value as of December 31, 2010			
	Level 1	Level 2	Level 3	Losses
Assets:				
Goodwill	$—	$—	$—	$430,101
Property and equipment	—	—	—	46,460
Wireless licenses	—	—	7,496	766
Total	$—	$—	$7,496	$477,327

Note 5. Long-Term Debt

Long-term debt as of September 30, 2011 and December 31, 2010 was comprised of the following (in thousands):

	September 30, 2011	December 31, 2010
Convertible senior notes due 2014	$250,000	$250,000
Unsecured senior notes due 2015	300,000	300,000
Non-negotiable promissory note due 2015	30,411	45,500
Senior secured notes due 2016	1,100,000	1,100,000
Unamortized discount on $1,100 million senior secured notes due 2016	(30,985)	(34,962)
Unsecured senior notes due 2020	1,600,000	1,200,000
Unamortized discount on $1,600 million unsecured senior notes due 2020	(22,070)	(19,968)
	3,227,356	2,840,570
Current maturities of long-term debt	(8,500)	(8,500)
	$3,218,856	$2,832,070

Senior Notes

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 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 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) that guarantees indebtedness for borrowed money 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 STX Wireless and Cricket Music Holdco, LLC ("Cricket Music") (a wholly-owned subsidiary of Cricket that holds certain hardware, software and intellectual property relating to Cricket's Muve Music business)) and Savary Island and their respective subsidiaries. In addition, the notes and the guarantees are senior in right of payment to any of Leap's, Cricket's and the guarantors' future subordinated indebtedness.

Prior to July 15, 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.

Non-Negotiable Promissory Note Due 2015

Cricket service was previously offered in greater Chicago and Southern Wisconsin by Denali Spectrum, LLC (“Denali”), an entity in which the Company owned an 82.5% non-controlling membership interest. In December 2010, Cricket purchased the remaining 17.5% controlling membership interest in Denali that it did not previously own. As part of the purchase price, Cricket issued a five-year $45.5 million non-negotiable promissory note in favor of the former holder of such controlling membership interest, which matures on December 27, 2015. Interest on the outstanding principal balance of the note varies from year to year at rates ranging from approximately 5.0% to 8.3% and compounds annually. Under the note, Cricket is required to 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 are secured on a first-lien basis by certain assets of Savary Island. On May 4, 2011, Cricket prepaid approximately $15.1 million in principal amount of the note. As of September 30, 2011 and December 31, 2010, $30.4 million and $45.5 million in principal amount of indebtedness was outstanding under the note, respectively.

Senior Secured Notes Due 2016

In June 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. At September 30, 2011, the effective interest rate on the notes was 7.97%, 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 existing and future domestic subsidiaries (other than Cricket, which is the issuer of the notes) that guarantees any indebtedness of Leap, Cricket or any subsidiary guarantor. 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 $1,900 million aggregate principal amount of unsecured senior notes and, in the case of Leap, Leap's $250 million aggregate principal amount of convertible senior notes), as well as to all of Leap's, Cricket's and the guarantors' obligations under any permitted junior lien debt that may be incurred in the future, in each case to the extent of the value of the collateral securing the senior secured notes and the guarantees.

The notes and the guarantees are secured on a pari passu basis with all of Leap's, Cricket's and the guarantors' obligations under any permitted parity lien debt that may be incurred in the future. Leap, Cricket and the guarantors are permitted to incur debt under existing and future secured credit facilities in an aggregate principal amount outstanding (including the aggregate principal amount outstanding of the senior secured notes) of up to the greater of $1,500 million and 3.0 times Leap's consolidated cash flow (excluding the consolidated cash flow of Savary Island, STX Wireless and Cricket Music) for the prior four fiscal quarters through December 31, 2011, and stepping down 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 Savary Island, STX Wireless and Cricket Music) 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 STX Wireless and Cricket Music) and Savary Island and their respective subsidiaries. In addition, the notes and the guarantees are senior in right of payment to any of Leap's, Cricket's and the guarantors' future subordinated indebtedness.

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

Prior to May 15, 2012, Cricket may redeem up to 35% of the aggregate principal amount of the notes at a redemption price of 107.750% of the principal amount thereof, plus accrued and unpaid interest 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 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.

Unsecured Senior Notes Due 2020

In November 2010, Cricket issued $1,200 million of 7.75% unsecured senior notes due 2020 in a private placement to institutional buyers at an issue price of 98.323% of the principal amount, which were exchanged in January 2011 for identical notes that had been registered with the SEC. The $20.1 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. In May 2011, Cricket issued an additional $400 million of 7.75% unsecured senior notes due 2020 in a private placement to institutional buyers at an issue price of 99.193% of the principal amount. The $3.2 million discount to the net proceeds the Company received in connection with the issuance of the additional notes was recorded in long-term debt in the condensed consolidated financial statements and is being accreted as an increase to interest expense over the term of the notes. At September 30, 2011, the effective interest rates on the initial $1,200 million tranche and the additional $400 million tranche of the notes were 7.87% and 7.81%, respectively, both of which include 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 April 2011. 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) that guarantees indebtedness 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 above, 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 STX Wireless and Cricket Music) and Savary Island and their respective subsidiaries. In addition, the notes and the guarantees are senior in right of payment to any of Leap's, Cricket's and the guarantors' future subordinated indebtedness.

Prior to October 15, 2013, Cricket may redeem up to 35% of the aggregate principal amount of the notes at a redemption price of 107.750% of the principal amount thereof, plus accrued and unpaid interest and additional interest, if any, thereon to the redemption date, from the net cash proceeds of specified equity offerings. Prior to October 15, 2015, Cricket may redeem the notes, in whole or in part, at a redemption price equal to 100% of the principal amount thereof plus the applicable premium and any accrued and unpaid interest and additional interest, if any, thereon to the redemption date. The applicable premium is calculated as the greater of (i) 1.0% of the principal amount of such notes and (ii) the excess of (a) the present value at such date of redemption of (1) the redemption price of such notes at October 15, 2015 plus (2) all remaining required interest payments due on such notes through October 15, 2015 (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 October 15, 2015, at a redemption price of 103.875%, 102.583% and 101.292% of the principal amount thereof if redeemed during the twelve months beginning on October 15, 2015, 2016 and 2017, respectively, or at 100% of the principal amount if redeemed during the twelve months beginning on October 15, 2018 or thereafter, plus accrued and unpaid interest and additional interest, if any, thereon to the redemption date.

If a “change of control” occurs (which includes the acquisition of beneficial ownership of 35% or more of Leap's equity securities (other than a transaction where immediately after such transaction Leap will be a wholly-owned subsidiary of a person of which no person or group is the beneficial owner of 35% or more of such person's voting stock), a sale of all or substantially all of the assets of Leap and its restricted subsidiaries and a change in a majority of the members of Leap's board of directors that is not approved by the board), each holder of the notes may require Cricket to repurchase all of such holder's notes at a purchase price equal to 101% of the principal amount of the notes, plus accrued and unpaid interest and additional interest, if any, thereon to the repurchase date.

In connection with the private placement of the additional $400 million of notes in May 2011, the Company entered into a registration rights agreement with the initial purchasers of the notes in which the Company agreed to file and have declared effective a registration statement with the SEC to permit the holders to exchange or resell the notes. The Company filed a registration statement on Form S-4 with the SEC on October 3, 2011 for the exchange of the notes for registered notes, which registration statement was declared effective on October 13, 2011. The exchange offer will expire on November 10, 2011, unless extended. The Company must use reasonable best efforts to consummate the exchange offer within 30 business days after the effective date of the registration statement. In the event that the exchange offer is not consummated within this deadline, the agreement provides that additional interest will accrue on the principal amount of these additional notes at a rate of 0.50% per annum during the 90-day period immediately following such event and will increase by 0.50% per annum at the end of each subsequent 90-day period, but in no event will the penalty rate exceed 1.50% per annum. There are no other alternative settlement methods and, other than the 1.50% per annum maximum penalty rate, the agreement contains no limit on the maximum potential amount of additional interest that could be paid in the event the Company does not meet this requirement under the registration rights agreement.

Note 6. 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, 2011 and 2010 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,	
	2011	2010	2011	2010
Cost of service	$727	$852	$1,930	$2,315
Selling and marketing expense	760	1,577	1,068	4,514
General and administrative expense	(457)	6,553	8,557	20,034
Share-based compensation expense	$1,030	$8,982	$11,555	$26,863
Share-based compensation expense per share:				
Basic	$0.01	$0.12	$0.15	$0.35
Diluted	$0.01	$0.12	$0.15	$0.35

On August 10, 2011, the Company launched a stock option exchange program pursuant to which the Company offered to exchange eligible outstanding stock options previously granted under the Company's 2004 Stock Option, Restricted Stock and Deferred Stock Unit Plan, as amended (the “2004 Stock Plan”) and the Company's 2009 Employment Inducement Equity Incentive Plan, as amended, issued to eligible Cricket employees for a lesser number of replacement options to be granted under the 2004 Stock Plan, with an exercise price equal to the closing price of Leap common stock on the date of the replacement grant (the “Exchange Offer”). The Company completed the Exchange Offer on September 23, 2011. Options for an aggregate of approximately 1.6 million shares of Leap common stock, representing approximately 93% of the total number of eligible options, were exchanged in the Exchange Offer for replacement options for an aggregate of 256,202 shares of Leap common stock, with an exercise price of $7.09 per share. The exchange ratios used to determine how many replacement options were granted were determined on a grant-by-grant basis and were intended to result in the fair value, for accounting purposes, of the replacement options being approximately 50% of the fair value of the surrendered options using the Black-Scholes stock option pricing model. The Exchange Offer did not result in any additional share-based compensation expense. Executive officers and members of the Company's board of directors were not permitted to participate in the Exchange Offer.

Note 7. Comprehensive Loss

Comprehensive loss consisted of the following (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Net loss	$(94,125)	$(533,336)	$(239,007)	$(618,071)
Other comprehensive loss:				
Net unrealized holding losses on investments, net of tax	(9)	(6)	—	(256)
Reclassification of losses included in earnings, net of tax	—	—	—	(1,457)
Comprehensive loss	$(94,134)	$(533,342)	$(239,007)	$(619,784)

Note 8. Impairments and Other Charges

Impairments and other charges consisted of the following (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Goodwill impairment (Note 2)	$—	$430,101	$—	$430,101
Wireless license impairment (Note 2)	377	766	377	766
Property and equipment impairment (Note 2)	—	46,460	—	46,460
Post-acquisition charges (Note 10)	23,316	—	23,947	—
Impairments and other charges	$23,693	$477,327	$24,324	$477,327

Note 9. Basic and Diluted Earnings (Loss) Per Share

Basic earnings (loss) per share is computed by dividing net income (loss) attributable to common stockholders by the weighted-average number of common shares outstanding during the period. Diluted earnings per share is computed by dividing net income attributable to common stockholders 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, deferred stock units, employee stock purchase rights and convertible senior notes. Since the Company incurred losses for the three and nine months ended September 30, 2011 and 2010, 7.5 million and 9.5 million common share equivalents were excluded in the computation of diluted loss per share, for the three and nine months ended September 30, 2011 and 2010, respectively.

Note 10. Significant Acquisitions and Other Transactions

STX Wireless Joint Venture

Cricket service is offered in South Texas by the Company's joint venture STX Operations. Cricket controls STX Operations through a 75.75% controlling membership interest in its parent company STX Wireless. 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 to create a joint venture to provide Cricket service in the South Texas region. In exchange for such contributions, Cricket received a 75.75% controlling membership interest in STX Wireless and Pocket received a 24.25% non-controlling membership interest. Additionally, in connection with the transaction, the Company made payments to Pocket of approximately $40.7 million in cash.

The joint venture strengthens the Company's presence and competitive positioning in the South Texas region. Commencing October 1, 2010, STX Operations began providing Cricket service to approximately 700,000 customers, of which approximately 323,000 were contributed by Pocket, with a network footprint covering population and potential customers ("POPs") of approximately 4.4 million.

The Company accounted for the acquisition of Pocket's business as a business purchase combination in accordance with the authoritative guidance for business combinations, with the Company as the acquirer. The consideration provided to Pocket, in exchange for Pocket's business, was as follows (in thousands):

Cash	$40,730
Fair value of Cricket's business contributed to STX Wireless at 24.25%	65,793
Fair value of Pocket business contributed to STX Wireless at 24.25%	34,101
Total consideration	$140,624

The fair values of the contributions to STX Wireless were determined using internally developed discounted cash flow models corroborated by third party valuation firms.

The consideration was allocated to the tangible and intangible assets acquired and liabilities assumed by STX Wireless based on their fair values as of October 1, 2010. The excess of the purchase price over the fair values of the net assets acquired was recorded as goodwill. While the Company does not anticipate significant changes to the purchase price allocation, certain post-closing purchase price adjustments have not yet been finalized, and therefore are preliminary and subject to change.

The following amounts represent the preliminary fair value of identifiable assets acquired and liabilities assumed by the Company as of the acquisition date (in thousands):

	Fair Value
Assets:	
Inventories	$2,331
Other current assets	1,204
Property and equipment	41,971
Wireless licenses	33,716
Customer relationships	50,435
Goodwill	31,094
Total Assets	160,751
Liabilities:	
Accounts payable and accrued liabilities	$4,020
Deferred revenue	4,224
Deferred tax liability	10,693
Other long-term liabilities	1,190
Total liabilities	20,127
Total net assets acquired	$140,624

Goodwill primarily represents the future economic benefits arising from other assets acquired that could not be individually identified and separately recognized. The goodwill arising from the transaction consisted largely of the synergies expected from the joint venture. As part of the valuation, the Company recorded approximately $50.4 million of finite-lived intangible assets, representing the fair value of customer relationships, which are amortized on an accelerated basis over an estimated useful life of four years. Additionally, the Company recorded approximately

$33.7 million of wireless licenses acquired in the transaction. Consistent with the Company's policy regarding the useful lives of its wireless licenses, the wireless licenses acquired have an indefinite useful life.

The Company has not presented pro forma financial information reflecting the effects of the transaction because such effects are not material.

Pocket's 24.25% non-controlling membership interest in STX Wireless was recorded in mezzanine equity as a component of redeemable non-controlling interests. The non-controlling interest was initially recognized as part of the purchase accounting in the amount of $51.5 million. The $51.5 million amount comprised the sum of Pocket's proportionate share (24.25%) of the fair value in the business contributed to the joint venture by Pocket plus its proportionate share (24.25%) of the net equity of the business contributed by Cricket.

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"). 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 is 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 the product 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. The purchase price is 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 has the right to deduct from or set off against the purchase price certain distributions made to Pocket, as well as any obligations owed to the Company by Pocket. Under the STX LLC Agreement, Cricket is 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. To the extent the redemption price for Pocket's non-controlling membership interest varies from the value of Pocket's net interest in STX Wireless at any period (after the attribution of profits or losses), the value of such interest is accreted to the redemption price for such interest with a corresponding adjustment to additional paid-in capital. For the nine months ended September 30, 2011 and for the year ended December 31, 2010, the Company recorded a net accretion benefit of $11.3 million and accretion charges of $48.1 million, respectively, to bring the carrying value of Pocket's membership interests in STX Wireless to its estimated redemption values of $88.3 million and $99.5 million, respectively. Additionally, and in accordance with the STX LLC Agreement, STX Wireless made pro-rata distributions of $5.7 million and $1.7 million to Cricket and Pocket, respectively, with respect to their estimated tax liabilities resulting from STX Wireless' earnings for the nine months ended September 30, 2011. The Company recorded the distribution to Pocket as an adjustment to additional paid-in-capital in the condensed consolidated balance sheets and as a component of accretion of redeemable non-controlling interests and distributions, net of tax, in the condensed consolidated statements of operations. The distribution made to Cricket was eliminated in consolidation.

At the closing of the formation of the joint venture, 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 October 2020 and the date on which Pocket ceases to hold any membership interests in STX Wireless. Cricket has the right to set off all outstanding principal and interest under this loan and security agreement 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.

In a separate transaction, on January 3, 2011, the Company acquired Pocket's customer assistance call center for $850,000. The Company accounted for this transaction as a business purchase combination in accordance with the authoritative guidance for business combinations. A portion of the purchase price was assigned to property and equipment and the remaining amount was allocated to goodwill.

The Company has been integrating the Cricket and Pocket operating assets in the South Texas region so that the combined network and retail operations of the STX Wireless joint venture will operate more efficiently. During the three and nine months ended September 30, 2011, the Company incurred approximately $23.3 million and $23.9 million of integration charges relating primarily to certain leased cell site and retail store locations that the Company will no longer use, which were recorded in impairments and other charges within the Company's condensed consolidated statements of operations. Although continued integration activities are expected, additional integration charges related to such activities are expected to be minimal.

Savary Island Venture

Cricket owns an 85% non-controlling membership interest in Savary Island, which holds wireless spectrum in the upper Midwest portion of the U.S. and which leases a portion of that spectrum to Cricket. On December 27, 2010, immediately prior to Cricket's purchase of the remaining 17.5% controlling membership interest in Denali that it did not previously own, Denali contributed all of its wireless spectrum outside of the 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 membership interest. Savary Island acquired this spectrum as a “very small business” designated entity under FCC regulations. Ring Island Wireless, LLC (“Ring Island”) contributed $5.1

million of cash to Savary Island in exchange for a 15% controlling membership interest. On March 31, 2011, Denali and its subsidiaries were merged with and into Cricket, with Cricket as the surviving entity.

Under the amended and restated limited liability company agreement of Savary Island (the “Savary Island LLC Agreement”), Ring Island has the right to put its entire controlling membership interest in Savary Island to Cricket during the 30-day period commencing on the earlier to occur of May 1, 2012 (based on current FCC rules) and the date of a sale of all or substantially all of the assets, or the liquidation, of Savary Island, and during any 30-day period commencing after a breach by Cricket of its obligation to pay spectrum lease fees or fund working capital loans under the Savary Island Credit Agreement (see below) which breach has continued for 120 days after written notice of breach. The purchase price for such sale is an amount equal to Ring Island's equity contributions to Savary Island less any optional distributions made pursuant to the Savary Island LLC Agreement, plus $150,000 if the sale is consummated prior to May 1, 2017 without incurring any unjust enrichment payments. If the put option is exercised, the consummation of the sale will be subject to FCC approval. The Company has recorded this obligation to purchase Ring Island's controlling membership interest in Savary Island as a component of redeemable non-controlling interest in the condensed consolidated balance sheets. Savary Island has guaranteed Cricket's put obligations under the Savary Island LLC Agreement, which guaranty is secured on a first-lien basis by certain assets of Savary Island. Under the Savary Island LLC Agreement, Savary Island is also required to make monthly mandatory distributions to Ring Island. Savary Island is also party to a management services agreement with Cricket, pursuant to which Cricket provides management services to Savary Island in exchange for a management fee.

The Company attributes profits and losses to Ring Island's redeemable non-controlling interests each reporting period. To the extent that the redemption price for Ring Island's controlling membership interest exceeds the value of Ring Island's net interest in Savary Island at any period (after the attribution of profits or losses), the value of such interest is accreted to the redemption price for such interest with a corresponding adjustment to additional paid-in capital. However, the Company would not reduce the carrying amount of the redeemable non-controlling interest below the redemption price. Both the attribution of profit or loss and the accretion of the redeemable non-controlling interest are presented as a component of accretion of redeemable non-controlling interests and distributions, net of tax, in the condensed consolidated statements of operations. As of September 30, 2011 and December 31, 2010, this redeemable non-controlling interest had a carrying value of $5.3 million.

At the closing of the formation of the venture, Savary Island assumed $211.6 million of the outstanding loans then owed by Denali and its subsidiaries to Cricket. In connection with Savary Island's assumption of such loans, Cricket, Savary Island and Savary Island's subsidiaries entered into an amended and restated senior secured credit agreement, dated as of December 27, 2010 (the “Savary Island Credit Agreement”) to amend and restate the terms of the Denali senior secured credit agreement applicable to the assumed loans. Under the Savary Island Credit Agreement, Cricket also agreed to loan Savary Island up to an additional $5.0 million to fund its working capital needs. As of September 30, 2011 and December 31, 2010, borrowings under the Savary Island Credit Agreement totaled $211.6 million. Loans under the Savary Island Credit Agreement (including the assumed loans) accrue interest at the rate of 9.5% per annum and such interest is added to principal annually. All outstanding principal and accrued interest is due in May 2021. Outstanding principal and accrued interest are due in quarterly installments commencing May 2018. However, if Ring Island exercises its put under the Savary Island LLC Agreement prior to such date, then the amortization commencement date under the Savary Island Credit Agreement will be the later of the amortization commencement date and the put closing date. Savary Island may prepay loans under the Savary Island Credit Agreement at any time without premium or penalty. The obligations of Savary Island and its subsidiaries under the Savary Island Credit Agreement are secured by all of the personal property, fixtures and owned real property of Savary Island and its subsidiaries, subject to certain permitted liens. The Savary Island Credit Agreement and the related security agreements contain customary representations, warranties, covenants and conditions.

Other Transactions

On May 4, 2011, the Company and Savary Island entered into license exchange agreements with T-Mobile and its affiliates in which Cricket and Savary Island have agreed to assign 10 MHz of unused wireless spectrum in Indianapolis, IN, Minneapolis, MN and Syracuse, NY to T-Mobile and its affiliates. In exchange, Cricket will receive 10 MHz of additional wireless spectrum in seven existing Cricket markets in Texas, Colorado, Oklahoma and New Mexico and will cancel a portion of the indebtedness owed by Savary Island to Cricket. The Company and Savary Island have also entered into spectrum lease arrangements with T-Mobile and its affiliates for the interim lease of the spectrum subject to the exchange for the period until the closing. The FCC granted its consent to this transaction in October 2011. Completion of the license exchange is subject to customary closing conditions. The wireless licenses to be transferred to T-Mobile under the license exchange agreements have been classified in assets held for sale at their carrying value of $30.4 million in the condensed consolidated balance sheet as of September 30, 2011.

On February 11, 2011, the Company entered into an agreement with Global Tower, LLC (“GTP”) to sell certain of the Company's telecommunications tower assets in one or more closings. During the second and third quarters of 2011, the Company sold those

telecommunications towers and related assets for approximately $25.8 million in cash. The transaction was structured as a sale lease-back financing, in which the Company entered into a 10-year lease agreement with GTP to continue the Company's commercial use of the towers. Accordingly, the Company recorded a capital lease obligation of $25.8 million, which was equal to the proceeds received from GTP.
On June 30, 2011, one of the Company's equity method investees declared a cash dividend and paid the dividend with funds borrowed under a third-party line of credit. The Company's share of the dividend based on its ownership percentage was $18.2 million and was received in full on July 1, 2011. In the condensed consolidated statement of cash flows for the nine months ended September 30, 2011, the Company presented the portion of the dividend equal to its share of accumulated profits (approximately $6.6 million) as cash from operating activities and the remainder (approximately $11.6 million) as cash from investing activities, as it represented a return of the Company's original investment.

Note 11. Arrangements with Variable Interest Entities and Joint Ventures

As described in Note 2, the Company consolidates its non-controlling membership interest in Savary Island in accordance with the authoritative guidance for the consolidation of variable interest entities because Savary Island is a variable interest entity and, among other things, the Company has entered into an agreement with Savary Island's other member which establishes a specified purchase price in the event that Ring Island exercises its right to sell its membership interest to the Company. Also, as described in Note 2, the Company consolidates its controlling membership interest in STX Wireless in accordance with the authoritative guidance for consolidations based on the voting interest model. All intercompany accounts and transactions have been eliminated in the condensed consolidated financial statements.

The aggregate carrying amount and classification of the assets and liabilities of Savary Island, excluding intercompany accounts and transactions, as of September 30, 2011 and December 31, 2010 are presented in the table below (in thousands):

	September 30, 2011	December 31, 2010
Assets		
Cash and cash equivalents	$7,858	$5,250
Wireless licenses	127,137	156,055
Assets held for sale (1)	$29,033	$—
Total Assets	$164,028	$161,305
Liabilities		
Other current liabilities	$30	$—
Total Liabilities	$30	$—

(1) Represents the carrying value of wireless licenses to be assigned and transferred to T-Mobile and its affiliates at the closing under the license exchange agreement discussed in Note 10, "Significant Acquisitions and Other Transactions."

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, 2011

Beginning balance, January 1	$104,788
Accretion of redeemable non-controlling interests, before tax	(10,499)
Other	(779)
Ending balance, September 30	$93,510

Note 12. Unrestricted Subsidiaries

In July 2011, the Company's board of directors designated Cricket Music and Cricket Music's wholly owned subsidiary Cricket Music Operations, LLC (“Music Operations”) as “Unrestricted Subsidiaries” under the indentures governing Cricket's senior notes.

21

Music Operations holds certain hardware, software and intellectual property relating to Cricket's Muve Music business. The financial position and results of operations of Cricket Music and Music Operations are included in the Company's condensed consolidated financial statements included in this report. Together with STX Wireless and Savary Island, Cricket Music and Music Operations are presented as “Non-Guarantors” within the Company's condensed consolidating financial statements included in Note 15.
As required by the indentures governing Cricket's senior notes, the Company is presenting the aggregate carrying amount and classification of the components of the financial position and results of operations of Cricket Music and Music Operations as of and for the nine months ended September 30, 2011 in the following tables separately (in thousands):

	September 30, 2011
Assets	
Property and equipment, net	$ 10,409
Total Assets	$ 10,409
Liabilities and Stockholders' Equity	
Accounts payable and accrued liabilities	$ 1
Stockholders' Equity	10,408
Total Liabilities and Stockholders' Equity	$ 10,409

	Three and Nine Months Ended September 30, 2011
Revenues	$ —
Operating expenses	
Depreciation and amortization	$ 1,100
Other	1
Total operating expenses	1,101
Operating loss	(1,101)
Net loss	$ (1,101)

Note 13. 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 2011 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 2011 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 as of and for the three and nine months ended September 30, 2011 and 2010 by applying the actual effective tax rate to the year-to-date income (loss).

The Company periodically assesses the likelihood that its deferred tax assets will be recoverable from future taxable income. 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. 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, 2011, the Company weighed the positive and negative factors and, at this time, does not believe there is sufficient positive evidence 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 $1.9 million Texas Margins Tax (“TMT”) credit. Accordingly, at September 30, 2011 and December 31, 2010, the Company recorded a valuation allowance offsetting substantially all of its net deferred tax assets.

The Company has substantial federal and state net operating losses ("NOLs") for income tax purposes. Subject to certain requirements, the Company may "carry forward" its federal NOLs for up to 20 years to offset future taxable income and reduce its income tax liability. For state income tax purposes, the NOL carryforward period ranges from five to 20 years. As of September 30, 2011, the Company had federal and state NOLs of approximately $2.4 billion which begin to expire in 2022 for federal income tax purposes and of which $0.3 million will expire at the end of 2011 for state income tax purposes. While these NOL carryforwards have a potential to be used to offset future ordinary taxable income and reduce future cash tax liabilities by approximately $914.6 million, the Company's ability to utilize these NOLs will depend upon the availability of future taxable income during the carryforward period and, as such, there is no assurance the Company will be able to realize such tax savings.

The Company's ability to utilize NOLs could be further limited if it were to experience an "ownership change," as defined in Section 382 of the Internal Revenue Code and similar state provisions. In general terms, a change in ownership can occur whenever there is a cumulative 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 occurrence of such a change in the Company's ownership would limit the amount of NOL carryforwards it could utilize in a given year. This limitation would accelerate cash tax payments the Company would be required to make and likely result in a substantial portion of its NOLs expiring before the Company could fully utilize them.

Recent trading in Leap common stock has increased the risk of an ownership change under Section 382 of the Internal Revenue Code. Accordingly, on August 30, 2011, 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.

The Company's unrecognized income tax benefits and uncertain tax positions, as well as any associated interest and penalties, are recorded through income tax expense; however, such amounts have not been significant in any period.

Note 14. Commitments and Contingencies

As more fully described below, the Company is involved in a variety of lawsuits, claims, investigations and proceedings concerning intellectual property, commercial, business practices and other matters. Due in part to the expansion and development 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

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, which was recently affirmed on appeal.

Digital Technology Licensing

On October 31, 2011, the Company entered into an agreement with Digital Technology Licensing LLC (“DTL”) to settle a matter brought against the Company and certain other wireless carriers (including Hargray Wireless LLC ("Hargray Wireless"), a company which Cricket acquired in April 2008 and which was merged with and into Cricket in December 2008) on April 21, 2009 in the United States District Court for the Southern District of New York. DTL alleged that the Company and Hargray Wireless sold and/or offered to sell Bluetooth® devices or digital cellular telephones, including Kyocera and Sanyo telephones, and that such acts constituted direct and/or indirect infringement of U.S. Patent No. 5,051,799 entitled “Digital Output Transducer.” DTL further alleged that the Company and Hargray Wireless directly and/or indirectly infringed 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 alleged that the asserted infringement was willful, and the complaint sought a permanent injunction against further infringement, unspecified damages (including enhanced damages), attorneys' fees, and expenses. The action was dismissed on August 24, 2011, subject to the right of the parties to refile the action in the event that the settlement had not been finalized.

Department of Justice Inquiry

On August 18, 2011, the Company settled a matter with the Civil Division of the United States Department of Justice (the “DOJ”). The DOJ had previously alleged, in a letter to the Company on January 7, 2009, 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 and, as a result, that the Company violated the False Claims Act (the “FCA”) and was therefore liable for damages.

Pentwater Capital Management

On July 26, 2011, the Company entered into an agreement with Pentwater Capital Management LP and certain of its affiliates (collectively, "Pentwater"), to settle an action brought by Pentwater in the Delaware Court of Chancery on June 20, 2011. The action related to a notice of nominations, dated March 10, 2011, by which Pentwater purported to nominate three directors for election at the Company's Annual Meeting, which was held on July 28, 2011. The Company advised Pentwater that the notice they delivered was not in proper form because it did not comply with provisions of the Company's bylaws and that as a result any shares voted with respect to any nominees of Pentwater would not be counted for the purpose of determining the election of directors at the Annual Meeting. Pentwater's complaint sought a declaration that Article II, Section 8(a)(2)(D)(iv) of the Company's Amended and Restated Bylaws was invalid under Delaware law. Pentwater also alleged that members of the Company's board of directors breached their fiduciary duties by adopting revisions to the advance notice provisions in the Company's Amended and Restated Bylaws on December 2, 2010. Under the terms of the settlement, Pentwater agreed to irrevocably withdraw their notice of intention to nominate directors for election and to dismiss the action with prejudice. Pentwater also agreed to vote all shares of Leap stock they held on the record date in favor of each of the directors nominated by the Company's board of directors at the Annual Meeting. Under the terms of the settlement, the Company increased the size of Leap's board to nine directors, appointed Robert E. Switz and Richard R. Roscitt as directors and appointed Mr. Roscitt to the Nominating and Corporate Governance Committee and to the Compensation Committee. The action was dismissed on August 2, 2011.

Other Litigation, Claims and Disputes

In addition to the matters described above, the Company is often involved in certain other matters which generally arise in the ordinary course of business and which seek monetary damages and other relief. Based upon information currently available to the Company, none of these other matters is expected to have a material adverse effect on the

Company's business, financial condition or results of operations.

Wholesale Agreement

On August 2, 2010, the Company entered into a wholesale agreement with an affiliate of Sprint Nextel which the Company uses to offer Cricket wireless services in nationwide retailers outside the Company's current network footprint using Sprint's network. The Company and Sprint amended the agreement in July 2011 to, among other things, revise the amount of the annual minimum revenue commitments for the years 2011 and 2013.

The initial term of the wholesale agreement runs until December 31, 2015, and automatically 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 revenue under the agreement, as amended, over the initial five-year term (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 $20 million of revenue to be provided in 2011, a minimum of $75 million of revenue to be provided in 2012, a minimum of $80 million of revenue to be provided in 2013, a minimum of $75 million of revenue to be provided in 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. However, to the extent the Company's revenues were to fall beneath the applicable commitment amount for any given year, excess revenues from a subsequent year could not be carried back to offset such shortfall.

In addition, 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. ("MetroPCS")), either the Company (or the Company's successor in interest) or Sprint may terminate the wholesale 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 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 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.

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 minimum commitment levels through July 2012. The total aggregate commitments outstanding under these agreements were approximately $278.6 million and $218.2 million as of September 30, 2011 and December 31, 2010, respectively.

Note 15. Guarantor Financial Information

The $3,000 million of senior notes issued by Cricket (the “Issuing Subsidiary”) are comprised of $300 million of unsecured senior notes due 2015, $1,100 million of senior secured notes due 2016 and $1,600 million of unsecured senior notes due 2020. 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 (STX Wireless, Savary Island, Cricket Music and Music Operations) and total consolidated Leap and subsidiaries as of September 30, 2011 and December 31, 2010 and for the three and nine months ended September 30, 2011 and 2010 is presented below. The equity method of accounting is used to account for ownership interests in subsidiaries, where applicable.

At December 31, 2010, LCW Wireless and Denali and their respective subsidiaries were wholly owned subsidiaries of the Issuing Subsidiary and reported as Non-Guarantor Subsidiaries in the condensed consolidating financial statements. LCW Wireless and Denali and their respective subsidiaries were merged with and into the Issuing Subsidiary on February 28, 2011 and March 31, 2011, respectively. As a result of these transactions, the financial position, results of operations and cash flows of these entities have been consolidated into the Issuing Subsidiary. All prior period consolidating financial statements have been revised to reflect this reorganization.

Condensed Consolidating Balance Sheet as of September 30, 2011 (unaudited and in thousands):

	Guarantor Parent Company	Issuing Subsidiary	Guarantor Subsidiary	Non-Guarantor Subsidiaries	Consolidating and Eliminating Adjustments	Consolidated
Assets						
Cash and cash equivalents	$90	$344,871	$—	$ 79,778	$—	$424,739
Short-term investments	—	375,292	—	—	—	375,292
Inventories	—	82,725	—	5,578	—	88,303
Deferred charges	—	46,279	—	37	—	46,316
Other current assets	2,369	140,941	—	1,450	(1,107)	143,653
Total current assets	2,459	990,108	—	86,843	(1,107)	1,078,303
Property and equipment, net	—	1,842,651	—	86,847	—	1,929,498
Investments in and advances to affiliates and consolidated subsidiaries	991,160	2,255,195	54,504	—	(3,300,859)	—
Wireless licenses	—	—	1,748,775	192,049	—	1,940,824
Assets held for sale	—	—	1,376	29,033	—	30,409
Goodwill	—	11,240	—	20,414	—	31,654
Intangible assets, net	—	18,126	—	28,563	—	46,689
Other assets	4,254	56,249	—	2,267	—	62,770
Total assets	$997,873	$5,173,569	$1,804,655	$ 446,016	$(3,301,966)	$5,120,147
Liabilities and Stockholders' Equity						
Accounts payable and accrued liabilities	$268	$316,341	$—	$ 9,318	$—	$325,927
Current maturities of long-term debt	—	8,500	—	—	—	8,500
Intercompany payables	51,892	302,123	—	39,520	(393,535)	—
Other current liabilities	2,420	276,108	—	13,446	(1,107)	290,867
Total current liabilities	54,580	903,072	—	62,284	(394,642)	625,294
Long-term debt	250,000	2,968,856	—	226,930	(226,930)	3,218,856
Deferred tax liabilities	—	325,286	—	—	—	325,286
Other long-term liabilities	—	139,304	—	24,604	—	163,908
Total liabilities	304,580	4,336,518	—	313,818	(621,572)	4,333,344
Redeemable non-controlling interests	—	93,510	—	—	—	93,510
Stockholders' equity	693,293	743,541	1,804,655	132,198	(2,680,394)	693,293
Total liabilities and stockholders' equity	$997,873	$5,173,569	$1,804,655	$ 446,016	$(3,301,966)	$5,120,147

Condensed Consolidating Balance Sheet as of December 31, 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	$85	$269,140	$—	$ 81,565	$—	$350,790
Short-term investments	—	68,367	—	—	—	68,367
Inventories	—	98,763	—	5,478	—	104,241
Deferred charges	—	47,343	—	—	—	47,343
Other current assets	2,261	86,040	—	3,009	(300)	91,010
Total current assets	2,346	569,653	—	90,052	(300)	661,751
Property and equipment, net	—	1,946,209	—	90,436	—	2,036,645
Investments in and advances to affiliates and consolidated subsidiaries	1,200,613	2,269,613	47,069	49	(3,517,344)	—
Wireless licenses	—	—	1,747,108	220,967	—	1,968,075
Goodwill	—	10,680	—	20,414	—	31,094
Intangible assets, net	—	20,455	—	44,388	—	64,843
Other assets	5,315	66,195	—	905	—	72,415
Total assets	$1,208,274	$4,882,805	$1,794,177	$ 467,211	$(3,517,644)	$4,834,823
Liabilities and Stockholders' Equity						
Accounts payable and accrued liabilities	$79	$333,514	$—	$ 13,276	$—	$346,869
Current maturities of long-term debt	—	8,500	—	5,101	(5,101)	8,500
Intercompany payables	41,734	300,800	—	55,054	(397,588)	—
Other current liabilities	5,179	199,698	—	16,500	(300)	221,077
Total current liabilities	46,992	842,512	—	89,931	(402,989)	576,446
Long-term debt	250,000	2,582,070	—	211,875	(211,875)	2,832,070
Deferred tax liabilities	—	295,703	—	—	—	295,703
Other long-term liabilities	—	110,800	—	3,734	—	114,534
Total liabilities	296,992	3,831,085	—	305,540	(614,864)	3,818,753
Redeemable non-controlling interests	—	104,788	—	—	—	104,788
Stockholders' equity	911,282	946,932	1,794,177	161,671	(2,902,780)	911,282
Total liabilities and stockholders' equity	$1,208,274	$4,882,805	$1,794,177	$ 467,211	$(3,517,644)	$4,834,823

Condensed Consolidating Statement of Operations for the Three Months Ended September 30, 2011 (unaudited and in thousands):

	Guarantor Parent Company	Issuing Subsidiary	Guarantor Subsidiary	Non-Guarantor Subsidiaries	Consolidating and Eliminating Adjustments	Consolidated
Revenues:						
Service revenues	$—	$634,494	$—	$ 82,786	$16	$717,296
Equipment revenues	—	41,195	—	4,788	—	45,983
Other revenues	—	3,728	27,672	1,041	(32,441)	—
Total revenues	—	679,417	27,672	88,615	(32,425)	763,279
Operating expenses:						
Cost of service (exclusive of items shown separately below)	—	260,490	—	23,919	(28,510)	255,899
Cost of equipment	—	166,357	—	24,007	—	190,364
Selling and marketing	—	68,878	—	11,017	—	79,895
General and administrative	4,274	70,223	188	13,129	(3,915)	83,899
Depreciation and amortization	—	127,429	—	17,475	—	144,904
Impairments and other charges	—	1,069	377	22,247	—	23,693
Total operating expenses	4,274	694,446	565	111,794	(32,425)	778,654
Loss on sale or disposal of assets	—	(649)	—	(29)	—	(678)
Operating income (loss)	(4,274)	(15,678)	27,107	(23,208)	—	(16,053)
Equity in net loss of consolidated subsidiaries	(67,448)	(1,241)	—	—	68,689	—
Equity in net income of investees, net	—	764	—	—	—	764
Interest income	6,062	5,132	—	1	(11,136)	59
Interest expense	(3,170)	(69,853)	—	(5,141)	11,136	(67,028)
Other income, net	—	32	—	—	—	32
Income (loss) before income taxes	(68,830)	(80,844)	27,107	(28,348)	68,689	(82,226)
Income tax expense	—	(11,899)	—	—	—	(11,899)
Net income (loss)	(68,830)	(92,743)	27,107	(28,348)	68,689	(94,125)
Accretion of redeemable non-controlling interests and distributions, net of tax	—	25,295	—	—	—	25,295
Net income (loss) attributable to common stockholders	$(68,830)	$(67,448)	$27,107	$ (28,348)	$68,689	$(68,830)

29

Condensed Consolidating Statement of Operations for the Nine Months Ended September 30, 2011 (unaudited and in thousands):

	Guarantor Parent Company	Issuing Subsidiary	Guarantor Subsidiary	Non-Guarantor Subsidiaries	Consolidating and Eliminating Adjustments	Consolidated
Revenues:						
Service revenues	$—	$1,849,551	$—	$ 250,195	$48	$2,099,794
Equipment revenues	—	177,612	—	26,325	—	203,937
Other revenues	—	12,125	78,571	3,051	(93,747)	—
Total revenues	—	2,039,288	78,571	279,571	(93,699)	2,303,731
Operating expenses:						
Cost of service (exclusive of items shown separately below)	—	746,356	—	71,696	(81,338)	736,714
Cost of equipment	—	524,959	—	77,877	—	602,836
Selling and marketing	—	235,624	—	41,284	—	276,908
General and administrative	10,283	231,005	563	41,897	(12,361)	271,387
Depreciation and amortization	—	366,049	—	41,666	—	407,715
Impairments and other charges	—	1,301	377	22,646	—	24,324
Total operating expenses	10,283	2,105,294	940	297,066	(93,699)	2,319,884
Loss on sale or disposal of assets	—	(5,591)	—	(82)	—	(5,673)
Operating income (loss)	(10,283)	(71,597)	77,631	(17,577)	—	(21,826)
Equity in net income (loss) of consolidated subsidiaries	(228,660)	44,917	—	—	183,743	—
Equity in net income of investees, net	—	2,953	—	—	—	2,953
Interest income	18,188	15,249	—	3	(33,258)	182
Interest expense	(9,497)	(196,391)	—	(15,140)	33,258	(187,770)
Income (loss) before income taxes	(230,252)	(204,869)	77,631	(32,714)	183,743	(206,461)
Income tax expense	—	(32,546)	—	—	—	(32,546)
Net income (loss)	(230,252)	(237,415)	77,631	(32,714)	183,743	(239,007)
Accretion of redeemable non-controlling interests and distributions, net of tax	—	8,755	—	—	—	8,755
Net income (loss) attributable to common stockholders	$(230,252)	$(228,660)	$77,631	$ (32,714)	$183,743	$(230,252)

30

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	$—	$600,567	$—	$—	$16	$600,583
Equipment revenues	—	37,478	—	—	—	37,478
Other revenues	—	165	22,665	—	(22,830)	—
Total revenues	—	638,210	22,665	—	(22,814)	638,061
Operating expenses:						
Cost of service (exclusive of items shown separately below)	—	238,792	—	—	(23,403)	215,389
Cost of equipment	—	120,273	—	—	—	120,273
Selling and marketing	—	98,942	—	—	—	98,942
General and administrative	3,737	84,703	173	—	589	89,202
Depreciation and amortization	—	114,055	—	—	—	114,055
Impairments and other charges	—	476,561	766	—	—	477,327
Total operating expenses	3,737	1,133,326	939	—	(22,814)	1,115,188
Loss on sale or disposal of assets	—	(755)	(168)	—	—	(923)
Operating income (loss)	(3,737)	(495,871)	21,558	—	—	(478,050)
Equity in net income (loss) of consolidated subsidiaries	(535,457)	21,558	—	—	513,899	—
Equity in net income of investees, net	—	(316)	—	—	—	(316)
Interest income	6,063	211	—	—	(6,062)	212
Interest expense	(3,152)	(63,381)	—	—	6,062	(60,471)
Other income, net	—	135	—	—	—	135
Income (loss) before income taxes	(536,283)	(537,664)	21,558	—	513,899	(538,490)
Income tax benefit	—	5,154	—	—	—	5,154
Net income (loss)	(536,283)	(532,510)	21,558	—	513,899	(533,336)
Accretion of redeemable non-controlling interests and distributions, net of tax	—	(2,947)	—	—	—	(2,947)
Net income (loss) attributable to common stockholders	$(536,283)	$(535,457)	$21,558	$—	$513,899	$(536,283)

31

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	$—	$1,845,967	$—	$—	$48	$1,846,015
Equipment revenues	—	143,152	—	—	—	143,152
Other revenues	—	495	70,805	—	(71,300)	—
Total revenues	—	1,989,614	70,805	—	(71,252)	1,989,167
Operating expenses:						
Cost of service (exclusive of items shown separately below)	—	693,758	—	—	(73,021)	620,737
Cost of equipment	—	399,367	—	—	—	399,367
Selling and marketing	—	307,275	—	—	—	307,275
General and administrative	10,137	257,978	518	—	1,769	270,402
Depreciation and amortization	—	333,950	—	—	—	333,950
Impairments and other charges	—	476,561	766	—	—	477,327
Total operating expenses	10,137	2,468,889	1,284	—	(71,252)	2,409,058
Loss on sale or disposal of assets	—	(3,696)	(168)	—	—	(3,864)
Operating income (loss)	(10,137)	(482,971)	69,353	—	—	(423,755)
Equity in net income (loss) of consolidated subsidiaries	(621,163)	69,353	—	—	551,810	—
Equity in net income of investees, net	—	1,142	—	—	—	1,142
Interest income	18,188	933	—	—	(18,187)	934
Interest expense	(9,443)	(189,806)	—	—	18,187	(181,062)
Other income, net	—	3,207	—	—	—	3,207
Income (loss) before income taxes	(622,555)	(598,142)	69,353	—	551,810	(599,534)
Income tax expense	—	(18,537)	—	—	—	(18,537)
Net income (loss)	(622,555)	(616,679)	69,353	—	551,810	(618,071)
Accretion of redeemable non-controlling interests and distributions, net of tax	—	(4,484)	—	—	—	(4,484)
Net income (loss) attributable to common stockholders	$(622,555)	$(621,163)	$69,353	$—	$551,810	$(622,555)

32

Condensed Consolidating Statement of Cash Flows for the Nine Months Ended September 30, 2011 (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	$ 5	$ 248,616	$ —	$ 25,259	$ (5,746)	$ 268,134
Investing activities:						
Acquisition of a business	—	(850)	—	—	—	(850)
Purchases of property and equipment	—	(276,066)	—	(13,238)	—	(289,304)
Change in prepayments for purchases of property and equipment	—	(2,281)	—	—	—	(2,281)
Purchases of wireless licenses and spectrum clearing costs	—	(3,420)	—	(115)	—	(3,535)
Proceeds from sales of wireless licenses and operating assets	—	1,611	—	276	—	1,887
Purchases of investments	—	(521,909)	—	—	—	(521,909)
Sales and maturities of investments	—	214,726	—	—	—	214,726
Investments in and advances to affiliates and consolidated subsidiaries	(712)	—	—	—	712	—
Dividend received from equity investee	—	11,606	—	—	—	11,606
Change in restricted cash	—	(220)	—	(700)	—	(920)
Net cash used in investing activities	(712)	(576,803)	—	(13,777)	712	(590,580)
Financing activities:						
Proceeds from issuance of long-term debt	—	396,772	—	—	—	396,772
Repayment of long-term debt	—	(10,089)	—	(5,000)	—	(15,089)
Payment of debt issuance costs	—	(7,177)	—	—	—	(7,177)
Capital contributions, net	—	712	—	—	(712)	—
Proceeds from issuance of common stock, net	712	—	—	—	—	712
Proceeds from sale lease-back financing	—	25,815	—	—	—	25,815
Other	—	(2,115)	—	(8,269)	5,746	(4,638)
	712	403,918	—	(13,269)	5,034	396,395

Net cash provided by (used in) financing activities							
Net increase (decrease) in cash and cash equivalents	5	75,731	—	(1,787	)	—	73,949
Cash and cash equivalents at beginning of period	85	269,140	—	81,565		—	350,790
Cash and cash equivalents at end of period	$90	$344,871	$—	$ 79,778		$—	$424,739

33

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 (used in) by operating activities	$(10)	$326,264	$—	$—	$—	$326,254
Investing activities:						
Purchases of property and equipment	—	(298,927)	—	—	—	(298,927)
Change in prepayments for purchases of property and equipment	—	57	—	—	—	57
Purchases of wireless licenses and spectrum clearing costs	—	(2,969)	—	—	—	(2,969)
Purchases of investments	—	(481,435)	—	—	—	(481,435)
Sales and maturities of investments	—	621,449	—	—	—	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 used in investing activities	(660)	(161,981)	—	—	660	(161,981)
Financing activities:						
Repayment of long-term debt	—	(6,000)	—	—	—	(6,000)
Purchase of non-controlling interest	—	(24,161)	—	—	—	(24,161)
Capital contributions, net	—	660	—	—	(660)	—
Proceeds from the issuance of common stock, net	660	—	—	—	—	660
Other	—	(1,476)	—	—	—	(1,476)
Net cash provided by (used in) financing activities	660	(30,977)	—	—	(660)	(30,977)
Net increase (decrease) in cash and cash equivalents	(10)	133,306	—	—	—	133,296
Cash and cash equivalents at beginning of period	66	174,933	—	—	—	174,999
	$56	$308,239	$—	$—	$—	$308,295

Cash and cash equivalents
at end of period

34

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,” “us,” and the "Company" refer to Leap Wireless International, Inc., or Leap, and its subsidiaries and consolidated joint ventures, including Cricket Communications, Inc., or Cricket. Unless otherwise specified, information relating to population and potential customers, or POPs, is based on 2011 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, the audited consolidated financial statements and notes thereto filed as an exhibit to our Current Report on Form 8-K dated May 17, 2011 and filed with the Securities and Exchange Commission, or SEC, on May 17, 2011, 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, 2010 filed with the SEC on February 25, 2011.

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,” “expec 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 plan offerings, expand our retail distribution and execute effectively on our other strategic activities;
- our ability to obtain and maintain roaming and wholesale services from other carriers at cost-effective rates;
- our ability to maintain effective internal control over financial reporting;
- our ability to attract, integrate, motivate and retain an experienced workforce, including members of senior management;
- future customer usage of our wireless services, which could exceed our expectations, and our ability to manage or increase network capacity to meet increasing customer demand;
- our ability to acquire additional spectrum in the future at a reasonable cost or on a timely basis;
- 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 effectively integrate, manage and operate our joint venture in South Texas;
- 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. All forward-looking statements in this report speak only as of the filing date of this report, and we undertake no obligation to publicly 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 nationwide 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 South Texas by our joint venture, STX Wireless Operations, LLC, or STX Operations, which Cricket controls through a 75.75% controlling membership interest in its parent company STX Wireless, LLC , or STX Wireless. In addition, Cricket owns an 85% non-controlling membership interest in Savary Island Wireless, LLC, or Savary Island, which holds wireless spectrum in the upper Midwest portion of the U.S. and which leases a portion of that spectrum to us. For more information regarding the ventures described above, see "—Capital Expenditures, Significant Acquisitions and Other Transactions" below.

As of September 30, 2011, Cricket service was offered in 47 states and the District of Columbia and had approximately 5.8 million customers. As of September 30, 2011, we and Savary Island owned wireless licenses covering an aggregate of approximately 184.6 million POPs (adjusted to eliminate duplication from overlapping licenses). The combined network footprint in our operating markets covered approximately 95.3 million POPs as of September 30, 2011. The licenses we and Savary Island own provide 20 MHz of coverage and the opportunity to offer enhanced data services in almost all markets in which we currently operate, assuming that Savary Island were to make available to us certain of its spectrum.

In addition to our Cricket network footprint, we have entered into roaming relationships with other wireless carriers that enable us to offer Cricket customers nationwide voice and data roaming services over an extended service area covering approximately 289 million POPs. We have also entered into a wholesale agreement which permits us to offer Cricket services outside of our current network footprint. These arrangements enable us to offer enhanced Cricket products and services, continue to strengthen our growing retail presence in our existing markets and expand our distribution nationwide. During the third quarter of 2011, we expanded our nationwide sales presence by offering Cricket products and services in hundreds of additional mass-market retail locations, and we expect to continue expanding our distribution into thousands of additional locations by the end of 2011.

The foundation of our business is to provide unlimited, nationwide wireless service and to design and market our products and services to appeal to customers seeking increased value. Our primary Cricket service is Cricket Wireless, which generally offers customers unlimited nationwide voice and data services for a flat monthly rate. Our most popular Cricket Wireless rate plans bundle certain features with unlimited local and U.S. long distance and unlimited text messaging, along with mobile web, 411 services, navigation and data backup. 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 a flat monthly 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. In early 2011, we launched Muve Music™, an unlimited music download service designed specifically for mobile handsets, in select Cricket markets, and following this successful launch we have expanded the service to cover all of our markets. 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, which eliminated telecommunications taxes and certain other fees (such as activation, reactivation and regulatory fees) that we previously charged to customers. We also introduced new Cricket

Broadband service plans with flat monthly rates that vary depending upon the targeted amount of data that a customer expects to use during the month. At the same time, we eliminated the free first month of service that we previously provided to new customers of our Cricket Wireless and Cricket Broadband services who purchased a handset or modem, and decreased the retail prices of many of our devices. We also eliminated late fees that we previously charged to customers who reinstated their service after having failed to pay their monthly bill on time. Beginning in August 2010, we also began offering "smartphones" and other new handsets and devices, along with new, higher-priced service plans for those devices.

We believe that these changes to our business have made our services more attractive to customers and improved our competitive position, and they are producing improved operating and financial performance. The business changes we introduced have also affected a number of our operating metrics, generally tending to increase average revenue per user, or ARPU, cost per gross addition, or CPGA, and cash cost per user, or CCU, and tending to decrease gross customer additions and churn. For example, our appealing handset line-up and more attractive service plans have led many customers to purchase smartphones and select higher-value service plans, which has increased ARPU but has also increased our equipment and product costs associated with the enhanced value these services offer to customers. As a result of strong customer adoption of our smartphones and other new handsets and devices, we have deemphasized our Cricket Broadband service and have experienced a substantial reduction in the number of customers subscribing for this service.

A significant number of existing customers are also choosing to upgrade their handsets, frequently to smartphones, and to select higher-value service plans. Prior to August 2010, many existing customers activated a new line of service to receive a discount on a new handset and free month of service and then terminated their prior service, which had the effect of increasing our gross customer additions in prior year periods. The changes we made to our product and service offerings in August 2010 eliminated this practice, which has generally led to fewer, but higher-quality, gross customer additions than under the prior model. The value offered by our "all-inclusive" rate plans and the appeal of the smartphones and other new devices we have introduced have significantly reduced customer turnover, or churn. However, the substantial increase in existing customer upgrades as a result of our new initiatives tends to increase CCU. Further, the changes we have instituted tend to increase CPGA, because the fixed portions of our customer acquisition costs, including marketing and retail costs, are now allocated over a smaller number of gross customer additions. Total new customer acquisition costs tend to be lower than under the prior model because of the smaller number of gross customer additions. These lower new customer acquisition costs can substantially offset the costs of handset upgrades by existing customers. On balance, we believe that the changes we implemented have strengthened our business and are leading to greater lifetime customer value.

We are continuing to pursue opportunities to strengthen and expand our business. Our current business investment initiatives include the ongoing maintenance and development of our network and other business assets to allow us to continue to provide customers with high-quality service. In addition, we currently plan to deploy next-generation LTE network technology across approximately two-thirds of our current network footprint over the next two to three years. We plan to launch a commercial trial market in late 2011 and to cover approximately 25 million POPs with LTE in 2012. We also plan to continue to strengthen and expand our distribution, including through the wholesale agreement we have entered into, which we use to offer Cricket services in nationwide retailers outside of our current network footprint. Other future business investment initiatives, which could be significant, could include the launch of additional new product and service offerings, the acquisition of additional spectrum through private transactions or FCC auctions, the build-out and launch of new 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 Savary Island hold include large regional areas covering both rural and metropolitan communities, we and Savary Island 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 currently used for Cricket service. We intend to be disciplined as we pursue any investment initiatives and to remain focused on our position as a low-cost provider of wireless telecommunications.

Our customer activity is influenced by seasonal effects related to traditional retail selling periods and other factors that arise 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, and churn to be highest in the third quarter and lowest in the first quarter. Sales activity and churn, however, can be strongly affected by other factors, including changes in service plan pricing, 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. For example, we frequently offer existing customers the opportunity 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 first month of service on the additional line of service after paying an activation fee. In addition, from June to mid-July 2011, we offered port-in promotions in which we lowered the price on select smartphones, which drove significant, new customer activity for our smartphone handsets and their accompanying higher-priced service plans. We believe that promotional activity can provide important long-term benefits to us, including by helping us attract new customers for our wireless services or by extending the period of time over which customers use our services. The success of any of our promotional efforts depends upon many factors, including the cost that we incur to attract or retain customers and the length of time these customers continue to use our services. 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 the customer activity that would otherwise have been expected based on seasonal trends.

The wireless 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, cable companies and mobile satellite service providers. 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 present additional strong competition in markets in which our offerings overlap, and the evolving competitive landscape has negatively impacted our financial and operating results since 2009. As noted above, however, we substantially revised our product and service offerings in August 2010 and these changes are producing improved operating and financial performance. As consolidation in the industry continues and creates even larger competitors, advantages that these competitors may have, as well as their bargaining power as wholesale providers of roaming services, may increase. 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.

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 by selling non-core assets or 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, 2010 on February 25, 2011, there have been no significant changes to our critical accounting policies and estimates.

Results of Operations

Operating Items

The following tables summarize operating data for our consolidated operations for the three and nine months ended September 30, 2011 and 2010 (in thousands, except percentages):

	Three Months Ended September 30,				Change from Prior Year	
	2011	% of 2011 Service Revenues	2010	% of 2010 Service Revenues	Dollars	Percent
Revenues:						
Service revenues	$717,296		$600,583		$116,713	19.4 %
Equipment revenues	45,983		37,478		8,505	22.7 %
Total revenues	763,279		638,061		125,218	19.6 %
Operating expenses:						
Cost of service	255,899	35.7 %	215,389	35.9 %	40,510	18.8 %
Cost of equipment	190,364	26.5 %	120,273	20.0 %	70,091	58.3 %
Selling and marketing	79,895	11.1 %	98,942	16.5 %	(19,047)	(19.3)%
General and administrative	83,899	11.7 %	89,202	14.9 %	(5,303)	(5.9)%
Depreciation and amortization	144,904	20.2 %	114,055	19.0 %	30,849	27.0 %
Impairments and other charges	23,693	3.3 %	477,327	79.5 %	(453,634)	(95.0)%
Total operating expenses	778,654	108.6 %	1,115,188	185.7 %	(336,534)	(30.2)%
Loss on sale or disposal of assets	(678)	(0.1)%	(923)	(0.2)%	245	(26.5)%
Operating loss	$(16,053)	(2.2)%	$(478,050)	(79.6)%	$461,997	(96.6)%

39

	Nine Months Ended September 30,					
					Change from Prior Year	
	2011	% of 2011 Service Revenues	2010	% of 2010 Service Revenues	Dollars	Percent
Revenues:						
Service revenues	$2,099,794		$1,846,015		$253,779	13.7 %
Equipment revenues	203,937		143,152		60,785	42.5 %
Total revenues	2,303,731		1,989,167		314,564	15.8 %
Operating expenses:						
Cost of service	736,714	35.1 %	620,737	33.6 %	115,977	18.7 %
Cost of equipment	602,836	28.7 %	399,367	21.6 %	203,469	50.9 %
Selling and marketing	276,908	13.2 %	307,275	16.6 %	(30,367)	(9.9)%
General and administrative	271,387	12.9 %	270,402	14.6 %	985	0.4 %
Depreciation and amortization	407,715	19.4 %	333,950	18.1 %	73,765	22.1 %
Impairments and other charges	24,324	1.2 %	477,327	25.9 %	(453,003)	(94.9)%
Total operating expenses	2,319,884	110.5 %	2,409,058	130.5 %	(89,174)	(3.7)%
Loss on sale or disposal of assets	(5,673)	(0.3)%	(3,864)	(0.2)%	(1,809)	46.8 %
Operating loss	$(21,826)	(1.0)%	$(423,755)	(23.0)%	$401,929	(94.8)%

The following tables summarize customer activity for the three and nine months ended September 30, 2011 and 2010:

For the Three Months Ended September 30 (1)	2011	2010	Change Amount	Percent
Gross customer additions	665,939	644,387	21,552	3.3 %
Net customer additions (deactivations)	9,511	(199,949)	209,460	104.8 %
Weighted-average number of customers	5,743,943	5,131,982	611,961	11.9 %

For the Nine Months Ended September 30 (1)	2011	2010	Change Amount	Percent
Gross customer additions	2,140,966	2,460,700	(319,734)	(13.0)%
Net customer additions	236,945	134,103	102,842	76.7 %
Weighted-average number of customers	5,720,270	5,185,976	534,294	10.3 %
As of September 30, 2011				
Total customers	5,755,124	5,088,208	666,916	13.1 %

(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, 2011 Compared to Three and Nine Months Ended September 30, 2010

Gross Customer Additions

Gross customer additions for the three months ended September 30, 2011 were 665,939 compared to 644,387 for the corresponding period of the prior year. The 3.3% increase in the number of gross customer additions was driven by the increase in the number of new voice customers as a result of customer acceptance of the all-inclusive service plans and smartphones that we introduced in August 2010 as well as the impact of our new Muve Music service.

Gross customer additions for the nine months ended September 30, 2011 were 2,140,966 compared to 2,460,700 for the corresponding period of the prior year. The 13.0% decrease in the number of gross customer additions was driven by changes we made to our product and service offerings in August 2010, which eliminated the first free month of service we previously provided new customers and generally equalized the prices that new and existing customers paid for handsets. As described previously, prior to August 2010, many existing customers activated a new line of service to receive a discount on a new handset and free month of service and then terminated their prior service, which had the effect of increasing our gross customer additions in prior year periods. The year-over-year decrease was also driven by expected decreases in the number of new Cricket Broadband customers due to increased device pricing, reduced marketing emphasis and increased network management initiatives. The year-over-year decrease was partially offset by an increase in the number of new voice customers as a result of customer acceptance of the all-inclusive service plans and smartphones that we introduced in August 2010 as well as the impact of our new Muve Music service.

Net Customer Additions (Deactivations)

Net customer additions for the three months ended September 30, 2011 were 9,511 compared to 199,949 net customer deactivations for the corresponding period of the prior year. The 104.8% increase in the number of net customer additions reflected an increase in the number of net customer additions for our voice services primarily as a result of customer acceptance of the all-inclusive service plans and smartphones that we introduced in August 2010 as well as the impact of our new Muve Music service, partially offset by an increase in the number of net customer deactivations for our Cricket Broadband service due to increased device pricing, reduced marketing emphasis and increased network management initiatives.

Net customer additions for the nine months ended September 30, 2011 were 236,945 compared to 134,103 for the corresponding period of the prior year. The 76.7% increase in the number of net customer additions reflected an increase in the number of net customer additions for our voice services primarily as a result of customer acceptance of the all-inclusive service plans and smartphones that we introduced in August 2010 as well as the impact of our new Muve Music service, partially offset by an increase in the number of net customer deactivations for our Cricket Broadband service due to increased device pricing, reduced marketing emphasis and increased network management initiatives.

Service Revenues

Service revenues increased $116.7 million, or 19.4%, for the three months ended September 30, 2011 compared to the corresponding period of the prior year. This increase resulted from a 11.9% increase in average total customers due both to existing market customer growth and the contribution of approximately 323,000 customers by various entities doing business as Pocket Communications, or Pocket, to STX Wireless in October 2010, as well as an 11.1% increase in ARPU. The increase in ARPU was primarily attributable to the increased uptake of our higher-priced service plans for our smartphones that we introduced in August 2010 as well as the impact of our new Muve Music service, partially offset by a decrease in average total customers for our Cricket Broadband service and the elimination of certain late payment and reactivation fees in August 2010.

Service revenues increased $253.8 million, or 13.7%, for the nine months ended September 30, 2011 compared to the corresponding period of the prior year. This increase resulted from a 10.3% increase in average total customers due both to existing market customer growth and the contribution of approximately 323,000 customers by Pocket to STX Wireless in October 2010, as well as a 7.0% increase in ARPU. The increase in ARPU was primarily attributable to the increased uptake of our higher-priced service plans for our smartphones that we introduced in August 2010 as well as the impact of our new Muve Music service, partially offset by a decrease in average total customers for our Cricket Broadband service and the elimination of certain late payment and reactivation fees in August 2010.

Equipment Revenues

Equipment revenues increased $8.5 million, or 22.7%, for the three months ended September 30, 2011 compared to the corresponding period of the prior year. This increase was primarily due to a 24.2% increase in the number of devices sold to new and upgrading customers. This increase was partially offset by a 1.2% decrease in the average revenue per device sold. The decrease in the average revenue per device sold was primarily due to lower pricing on certain of our smartphones in connection with promotional activity during the third quarter of 2011.

Equipment revenues increased $60.8 million, or 42.5%, for the nine months ended September 30, 2011 compared to the corresponding period of the prior year. This increase was primarily due to a 26.8% increase in the average revenue per device sold and a 12.3% increase in the number of devices sold to new and upgrading customers. The increase in the average revenue per device sold was primarily due to customers purchasing smartphones which were introduced in August 2010 as well as our new Muve Music service, partially offset by lower pricing on certain of our smartphones in connection with promotional activity during the third quarter of 2011.

Cost of Service

Cost of service increased $40.5 million, or 18.8%, for the three months ended September 30, 2011 compared to the corresponding period of the prior year. Principal factors contributing to the increase in cost of service included increases in telecommunications taxes due to an 11.9% increase in average customers and increases in federal and state tax rates, our expansion into markets with higher tax rates and increased roaming costs in connection with the introduction of our unlimited nationwide service plans.

Cost of service increased $116.0 million, or 18.7%, for the nine months ended September 30, 2011 compared to the corresponding period of the prior year. As a percentage of service revenues, cost of service was 35.1% compared to 33.6% in the prior year period. Principal factors contributing to the increase in cost of service included increases in telecommunications taxes due to a 10.3% increase in average customers and increases in federal and state tax rates, our expansion into markets with higher tax rates and increased roaming costs in connection with the introduction of our unlimited nationwide service plans.

Cost of Equipment

Cost of equipment increased $70.1 million, or 58.3%, for the three months ended September 30, 2011 compared to the corresponding period of the prior year. A 27.5% increase in the average cost per device sold was accompanied by a 24.2% increase in the number of devices sold. The increase in the average cost per device sold to new and upgrading customers during the period was largely attributable to our introduction of smartphones in August 2010 as well as our new Muve Music service in early 2011.

Cost of equipment increased $203.5 million, or 50.9%, for the nine months ended September 30, 2011 compared to the corresponding period of the prior year. A 34.4% increase in the average cost per device sold was accompanied by a 12.3% increase in the number of devices sold. The increase in the average cost per device sold to new and upgrading customers during the period was largely attributable to our introduction of smartphones in August 2010 as well as our new Muve Music service in early 2011.

Selling and Marketing Expenses

Selling and marketing expenses decreased $19.0 million, or 19.3%, for the three months ended September 30, 2011 compared to the corresponding period of the prior year. As a percentage of service revenues, such expenses decreased to 11.1% from 16.5% in the prior year period. This percentage decrease was largely attributable to a decrease in media advertising expense and higher spending in the prior year associated with the launch of our new rate plans and smartphones in August 2010, as well as an increase in service revenues and consequent benefits of scale.

Selling and marketing expenses decreased $30.4 million, or 9.9%, for the nine months ended September 30, 2011 compared to the corresponding period of the prior year. As a percentage of service revenues, such expenses decreased to 13.2% from 16.6% in the prior year period. This percentage decrease was largely attributable to a decrease in media advertising expense and higher spending in the prior year associated with the launch of our new rate plans and smartphones in August 2010, as well as an increase in service revenues and consequent benefits of scale.

General and Administrative Expenses

General and administrative expenses decreased $5.3 million, or 5.9%, for the three months ended September 30, 2011 compared to the corresponding period of the prior year . As a percentage of service revenues, such expenses decreased to 11.7% from 14.9% in the prior year period primarily due to continued benefits from our cost-management initiatives and the increase in service revenues and consequent benefits of scale.

General and administrative expenses increased $1.0 million, or 0.4%, for the nine months ended September 30, 2011 compared to the corresponding period of the prior year. As a percentage of service revenues, such expenses decreased to 12.9% from 14.6% in the prior year period primarily due to continued benefits from our cost-management initiatives and the increase in service revenues and consequent benefits of scale.

Depreciation and Amortization

Depreciation and amortization expense increased $30.8 million, or 27.0%, for the three months ended September 30, 2011 compared to the corresponding period of the prior year. The increase in depreciation and amortization expense was due primarily to network and corporate platform upgrades as well as depreciation and amortization expense related to Pocket assets that were acquired by STX Wireless in the fourth quarter of 2010.

Depreciation and amortization expense increased $73.8 million, or 22.1%, for the nine months ended September 30, 2011 compared to the corresponding period of the prior year. The increase in depreciation and amortization expense was due primarily to network and corporate platform upgrades as well as depreciation and amortization expense related to Pocket assets that were acquired by STX Wireless in the fourth quarter of 2010.

Impairments and Other Charges

During the three and nine months ended September 30, 2011, we incurred approximately $23.3 million and $23.9 million, respectively, of integration charges relating primarily to certain leased cell site and retail store locations in the South Texas region that we will no longer use. Although continued integration activities are expected, additional integration charges related to such activities are expected to be minimal.

As a result of our annual impairment testing of our wireless licenses conducted during the third quarters of 2011 and 2010, we recorded impairment charges of $0.4 million and $0.8 million, respectively, to reduce the carrying value of certain non-operating wireless licenses to their fair value. 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 annual impairment testing of our goodwill conducted during the third quarter of 2011, no goodwill impairment charges were identified or recorded. 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 three months ended September 30, 2010, which is 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 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 three months 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, 2011.

Loss on Sale or Disposal of Assets

Loss on sale or disposal of assets reflects losses recognized upon the disposal of certain of our property and equipment of $0.7 million and $0.9 million, during the three months ended September 30, 2011 and 2010, respectively.

Loss on sale or disposal of assets reflects losses recognized upon the disposal of certain of our property and equipment of $5.7 million and $3.9 million, during the nine months ended September 30, 2011 and 2010, respectively.

Non-Operating Items

The following tables summarize non-operating data for our consolidated operations for the three and nine months ended September 30, 2011 and 2010 (in thousands):

	Three Months Ended September 30,		
	2011	2010	Change
Equity in net income (loss) of investees, net	$764	$(316)	$1,080
Interest income	59	212	(153)
Interest expense	(67,028)	(60,471)	(6,557)

Other income, net	32	135	(103)
Income tax (expense) benefit	(11,899)	5,154	(17,053)

43

	Nine Months Ended September 30,		
	2011	2010	Change
Equity in net income of investees, net	$2,953	$1,142	$1,811
Interest income	182	934	(752)
Interest expense	(187,770)	(181,062)	(6,708)
Other income, net	—	3,207	(3,207)
Income tax expense	(32,546)	(18,537)	(14,009)

Three and Nine Months Ended September 30, 2011 Compared to Three and Nine Months Ended September 30, 2010

Equity in Net Income (Loss) of Investees, Net

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

Interest Income

Interest income decreased $0.2 million and $0.8 million during the three and nine months ended September 30, 2011, respectively, compared to the corresponding periods of the prior year. These decreases were primarily attributable to a decline in interest rates from the corresponding periods of the prior year.

Interest Expense

Interest expense increased $6.6 million and $6.7 million during the three and nine months ended September 30, 2011, respectively, compared to the corresponding periods of the prior year. The increases in interest expense resulted primarily from our issuance of $400 million of additional 7.75% senior notes due 2020 in May 2011. This increase was partially offset by our issuance of $1,200 million of 7.75% senior notes due 2020 in November 2010. Substantially all of the proceeds from this latter issuance were used to repurchase and redeem our $1,100 million of 9.375% senior notes due 2014.

Income Tax (Expense) Benefit

During the three and nine months ended September 30, 2011, we recorded income tax expense of $11.9 million and $32.5 million, respectively, compared to an income tax benefit of $5.2 million and an income tax expense of $18.5 million for the three and nine months ended September 30, 2010, respectively. The increases in the income tax expense during the three and nine months ended September 30, 2011 compared to the prior-year periods resulted primarily from 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.

Unrestricted Subsidiaries

In July 2011, Leap's board of directors designated Cricket Music Holdco, LLC (a wholly-owned subsidiary of Cricket, or Cricket Music) and Cricket Music's wholly-owned subsidiary Cricket Music Operations, LLC, or Music Operations, as “Unrestricted Subsidiaries” under the indentures governing our senior notes. Cricket Music and Music Operations hold certain hardware, software and intellectual property relating to our Muve Music business. During the three and nine months ended September 30, 2011, Cricket Music and Music Operations had no operations or revenues. Therefore, the most significant components of the financial position and results of operations of our unrestricted subsidiaries were property and equipment and depreciation expense. As of September 30, 2011, property and equipment of our unrestricted subsidiaries was approximately $10.4 million, and for the three and nine months ended September 30, 2011, depreciation expense of our unrestricted subsidiaries was approximately $1.1 million, resulting in a net loss of approximately $1.1 million.

Customer Recognition and Disconnect Policies

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

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

Performance Measures

In managing our business and assessing our financial performance, management supplements the information provided by financial statement measures with several customer-focused performance metrics that are widely used in the telecommunications industry. These metrics include ARPU, which measures average service revenue per customer; CPGA, which measures the average cost of acquiring a new customer; 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 revenues less pass-through regulatory fees and telecommunications taxes, 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. Prior to the fourth quarter of 2010, we accounted for regulatory fees and telecommunications taxes paid with respect to our service plans, including Universal Service Fund and E-911 fees, on a net basis in the consolidated statement of operations, such that these fees and taxes were recorded as service revenues, net of amounts owed and remitted to government agencies. We no longer bill and collect these fees and taxes from customers on the "all-inclusive” service plans we launched in August 2010. As a result, during the fourth quarter of 2010, we elected to change the method of accounting for regulatory fees and telecommunications taxes from a net to a gross basis of presentation. As a result of this change, we no longer deduct from service revenues regulatory fees and telecommunications taxes owed and remitted to government agencies and instead include such amounts in cost of service. For purposes of calculating ARPU, we have deducted from service revenues pass-through regulatory fees and telecommunications taxes that we bill and collect from our customers with respect to our previously-offered non-“all-inclusive” service plans, which we remit on their behalf. This change has been applied retrospectively to our ARPU results presented below. We have made a corresponding adjustment in our calculation of CCU, as described below.

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 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 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 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 the first bill they receive following initial activation from our gross customer additions in the month in which they are disconnected, which tends to increase CPGA because we incur the costs associated with a new 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 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), less pass-through regulatory fees and telecommunications taxes, 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. Prior to the fourth quarter of 2010, we accounted for regulatory fees and telecommunications taxes paid with respect to our service plans, including Universal Service Fund and E-911 fees, on a net basis in the consolidated statement of operations, such that these fees and taxes were recorded as service revenues, net of amounts remitted to government agencies. We no longer bill and collect these fees and taxes from customers on the “all-inclusive” service plans we launched in August 2010. As a result, during the fourth quarter of 2010, we elected to change the method of accounting for regulatory fees and telecommunications taxes from a net to a gross basis of presentation. As a result of this change, we no longer deduct from service revenues regulatory fees and telecommunications taxes owed and remitted to government agencies and instead include such amounts in cost of service. For purposes of calculating CCU, we have deducted from cost of service pass-through regulatory fees and telecommunications taxes that we bill and collect from our customers with respect to our previously-offered non-“all-inclusive” service plans, which we remit on their behalf. This change has been applied retrospectively to our CCU results presented below. We have made a corresponding adjustment in our calculation of ARPU, described above. 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 the first bill they receive following initial activation 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 most recent 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; impairments and other charges; and share-based compensation expense. Adjusted OIBDA should not be construed as an alternative to operating income (loss) or net income (loss) 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 GAAP, 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;
- 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, 2011 and 2010 (in thousands, except for ARPU, CPGA, CCU and Churn):

	Three Months Ended September 30,			
	2011		2010	
ARPU	$41.25		$37.13	
CPGA	$238		$219	
CCU	$23.09		$19.95	
Churn	3.8	%	5.5	%
Adjusted OIBDA	$154,252		$123,237	

Reconciliation of Non-GAAP Financial Measures

We utilize certain financial measures, as described above, that are widely used in the telecommunications 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.

47

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 (unaudited; in thousands, except weighted-average number of customers and ARPU):

	Three Months Ended September 30,	
	2011	2010
Service revenues	$717,296	$600,583
Less pass-through regulatory fees and telecommunications taxes	(6,414)	(28,941)
Total service revenues used in the calculation of ARPU	710,882	571,642
Weighted-average number of customers	5,743,943	5,131,982
ARPU	$41.25	$37.13

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 (unaudited; in thousands, except gross customer additions and CPGA):

	Three Months Ended September 30,	
	2011	2010
Selling and marketing expense	$79,895	$98,942
Less share-based compensation expense included in selling and marketing expense	(760)	(1,577)
Plus cost of equipment	190,364	120,273
Less equipment revenue	(45,983)	(37,478)
Less net loss on equipment transactions and third-party commissions unrelated to customer acquisition	(64,738)	(38,833)
Total costs used in the calculation of CPGA	$158,778	$141,327
Gross customer additions	665,939	644,387
CPGA	$238	$219

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 (unaudited; in thousands, except weighted-average number of customers and CCU):

	Three Months Ended September 30,	
	2011	2010
Cost of service	$255,899	$215,389
Plus general and administrative expense	83,899	89,202
Less share-based compensation expense included in cost of service and general and administrative expense	(270)	(7,405)
Plus net loss on equipment transactions and third-party commissions unrelated to customer acquisition	64,738	38,833
Less pass-through regulatory fees and telecommunications taxes	(6,414)	(28,941)
Total costs used in the calculation of CCU	$397,852	$307,078
Weighted-average number of customers	5,743,943	5,131,982
CCU	$23.09	$19.95

48

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 (unaudited; in thousands):

	Three Months Ended September 30, 2011	2010
Operating loss	$(16,053)	$(478,050)
Plus depreciation and amortization	144,904	114,055
OIBDA	$128,851	$(363,995)
Plus loss on sale or disposal of assets	678	923
Plus impairments and other charges	23,693	477,327
Plus share-based compensation expense	1,030	8,982
Adjusted OIBDA	$154,252	$123,237

Liquidity and Capital Resources

Overview

Our principal sources of liquidity are our existing unrestricted cash, cash equivalents and short-term investments and cash generated from operations. From time to time, we may also generate additional liquidity by selling non-core assets or through future capital market transactions. We had a total of $800.0 million in unrestricted cash, cash equivalents and short-term investments as of September 30, 2011. We generated $268.1 million of net cash from operating activities during the nine months ended September 30, 2011, and we expect that cash from operations will continue to be a significant and increasing source of liquidity as our markets and product offerings continue to develop and our business continues to grow. We believe that our existing unrestricted cash, cash equivalents and short term investments, together with cash generated from operations, provide us with sufficient liquidity to meet the future operating and capital requirements for our current business operations, as well as our current business investment initiatives.

Our current business investment initiatives include the ongoing maintenance and development of our network and other business assets to allow us to continue to provide customers with high-quality service. In addition, we currently plan to deploy next-generation LTE network technology across approximately two-thirds of our current network footprint over the next two to three years. We plan to launch a commercial trial market in late 2011 and to cover approximately 25 million POPs with LTE in 2012. For our estimate of total capital expenditures for fiscal 2011, and projected capital expenditures for these current business investment initiatives over the next several years, see the discussion below under "—Capital Expenditures, Significant Acquisitions and Other Transactions."

We may also pursue other activities to build our business. Future business investment initiatives, which could be significant, could include the launch of additional new product and service offerings, the acquisition of additional spectrum through private transactions or FCC auctions, the build-out and launch of new markets, entering into partnerships with others or the acquisition of other wireless communications companies or complementary businesses. We do not intend to pursue any of these other business investment initiatives at a significant level unless we believe we have sufficient liquidity to support the operating and capital requirements for our current business operations, our current business investment initiatives and any such other activities.

We determine our future capital and operating requirements and liquidity based, in large part, upon our projected financial and operating performance, and we regularly review and update these projections due to changes in general economic conditions, our current and projected financial and operating results, the competitive landscape and other factors. Our projections regarding future capital and operating requirements and liquidity are based upon current operating, financial and competitive information and projections regarding our business and its financial performance.

There are a number of risks and uncertainties (including the risks to our business described above and others set forth in this report in Part II - Item 1A. under the heading entitled “Risk Factors”) that could cause our financial and operating results and capital requirements to differ materially from our projections and that could cause our liquidity to differ materially from the assessment set forth above.

As of September 30, 2011, we had $3,227.4 million in senior indebtedness outstanding, which was comprised of $250 million in aggregate principal amount of 4.5% convertible senior notes due 2014, $300 million in aggregate principal amount of 10.0% unsecured senior notes due 2015, $30.4 million in principal amount of a non-negotiable promissory note maturing in 2015, $1,100 million in aggregate principal amount of 7.75% senior secured notes due 2016 and $1,600 million in aggregate principal amount of 7.75% unsecured senior notes due 2020, as more fully described below. The indentures governing Cricket's secured and unsecured senior notes contain covenants that restrict the ability of Leap, Cricket and their restricted subsidiaries to take certain actions, including incurring additional indebtedness beyond specified thresholds.

Although our significant outstanding indebtedness results in certain risks to our business that could materially affect our financial condition and performance, we believe that these risks are manageable and that we are taking appropriate actions to monitor and address them. For example, in connection with our financial planning process and capital raising activities, we seek to maintain an appropriate balance between our debt and equity capitalization, and we regularly review our business plans and forecasts to monitor our ability to service our debt and to assess our capacity to incur additional debt under the indentures governing Cricket's secured and unsecured senior notes. Also, as our markets and product offerings continue to develop and our business continues to grow, we expect that increased cash flows will result in improvements in our consolidated leverage ratio. In addition, although our $3,227.4 million of senior indebtedness bears interest at fixed rates, we continue to review changes and trends in interest rates to evaluate possible hedging activities we could consider implementing. As a result of the actions described above, and our expected cash generated from operations and other sources of liquidity, we believe we have the ability to effectively manage our levels of indebtedness and address risks to our business and financial condition related to our indebtedness.

Cash Flows

Operating Activities

Net cash provided by operating activities decreased $58.1 million, or 17.8%, for the nine months ended September 30, 2011 compared to the corresponding period of the prior year. This decrease was primarily attributable to changes in working capital.

Investing Activities

Net cash used in investing activities was $590.6 million during the nine months ended September 30, 2011, which included the effects of the following transactions during the period:

- We purchased $289.3 million of property and equipment for the ongoing maintenance and development of our network and other business assets.
- We made investment purchases of $521.9 million, offset by sales or maturities of investments of $214.7 million.
- We received an $18.2 million dividend from one of our equity method investees on July 1, 2011, of which approximately $11.6 million was reflected as cash from investing activities, as it represented a return of our original investment.

Financing Activities

Net cash provided by financing activities was $396.4 million for the nine months ended September 30, 2011, which included the effects of the following transactions during the period:

- We issued $400 million of additional 7.75% senior notes due 2020, which resulted in net proceeds of $389.6 million.
- We prepaid approximately $15.1 million in principal amount of our non-negotiable promissory note maturing in 2015.
- We received proceeds of approximately $25.8 million from the sale lease-back financing related to certain of our telecommunications towers and related assets.

Senior Notes

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 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) that guarantees indebtedness for borrowed money 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 STX Wireless and Cricket Music) and Savary Island and their respective subsidiaries. In addition, the notes and the guarantees are senior in right of payment to any of Leap's, Cricket's and the guarantors' future subordinated indebtedness.

Prior to July 15, 2012, Cricket may redeem the notes, in whole or in part, at a redemption price equal to 100% of the principal amount thereof plus the applicable premium and any accrued and unpaid interest, if any, thereon to the redemption date. The applicable premium is calculated as the greater of (i) 1.0% of the principal amount of such notes and (ii) the excess of (a) the present value at such date of redemption of (1) the redemption price of such notes at July 15, 2012 plus (2) all remaining required interest payments due on such notes through July 15, 2012 (excluding accrued but unpaid interest to the date of redemption), computed using a discount rate equal to the Treasury Rate plus 50 basis points, over (b) the principal amount of such notes. The notes may be redeemed, in whole or in part, at any time on or after July 15, 2012, at a redemption price of 105.0% and 102.5% of the principal amount thereof if redeemed during the twelve months beginning on July 15, 2012 and 2013, respectively, or at 100% of the principal amount if redeemed during the twelve months beginning on July 15, 2014 or thereafter, plus accrued and unpaid interest, if any, thereon to the redemption date.

If a “change of control” occurs (which includes the acquisition of beneficial ownership of 35% or more of Leap's equity securities, a sale of all or substantially all of the assets of Leap and its restricted subsidiaries and a change in a majority of the members of Leap's board of directors that is not approved by the board), each holder of the notes may require Cricket to repurchase all of such holder's notes at a purchase price equal to 101% of the principal amount of the notes, plus accrued and unpaid interest, if any, thereon to the repurchase date.

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

Non-Negotiable Promissory Note Due 2015

Cricket service was previously offered in greater Chicago and Southern Wisconsin by Denali Spectrum, LLC, or Denali, an entity in which Cricket owned an 82.5% non-controlling membership interest. In December 2010, Cricket purchased the remaining 17.5% controlling membership interest in Denali that it did not previously own. As part of the purchase price, Cricket issued a five-year $45.5 million non-negotiable promissory note in favor of the former holder of such controlling membership interest, which matures on December 27, 2015. Interest on the outstanding principal balance of the note varies from year to year at rates ranging from approximately 5.0% to 8.3% and compounds annually. Under the note, Cricket is required to 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 are secured on a first-lien basis by certain assets of Savary Island. On May 4, 2011, Cricket prepaid approximately $15.1 million in principal amount of the note. As of September 30, 2011 and December 31, 2010, $30.4 million and $45.5 million in principal amount of indebtedness was outstanding under the note, respectively.

Senior Secured Notes Due 2016

In June 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 we received in connection with the issuance of the notes has been recorded in long-term debt in the condensed consolidated financial statements and is being accreted as an increase to interest expense over the term of the notes. At September 30, 2011, the effective interest rate on the notes was 7.97%, 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 existing and future domestic subsidiaries (other than Cricket, which is the issuer of the notes) that guarantees any indebtedness of Leap, Cricket or any subsidiary guarantor. 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 $1,900 million aggregate principal amount of unsecured senior notes and, in the case of Leap, Leap's $250 million aggregate principal amount of convertible senior notes), as well as to all of Leap's, Cricket's and the guarantors' obligations under any permitted junior lien debt that may be incurred in the future, in each case to the extent of the value of the collateral securing the senior secured notes and the guarantees.

The notes and the guarantees are secured on a pari passu basis with all of Leap's, Cricket's and the guarantors' obligations under any permitted parity lien debt that may be incurred in the future. Leap, Cricket and the guarantors are permitted to incur debt under existing and future secured credit facilities in an aggregate principal amount outstanding (including the aggregate principal amount outstanding of the senior secured notes) of up to the greater of $1,500 million and 3.0 times Leap's consolidated cash flow (excluding the consolidated cash flow of Savary Island, STX Wireless and Cricket Music) for the prior four fiscal quarters through December 31, 2011, and stepping down 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 Savary Island, STX Wireless and Cricket Music) 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 STX Wireless and Cricket Music) and Savary Island and their respective subsidiaries. In addition, the notes and the guarantees are senior in right of payment to any of Leap's, Cricket's and the guarantors' future subordinated indebtedness.

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

Prior to May 15, 2012, Cricket may redeem up to 35% of the aggregate principal amount of the notes at a redemption price of 107.75% 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 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.

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

Unsecured Senior Notes Due 2020

In November 2010, Cricket issued $1,200 million of 7.75% unsecured senior notes due 2020 in a private placement to institutional buyers at an issue price of 98.323% of the principal amount, which were exchanged in January 2011 for identical notes that had been registered with the SEC. The $20.1 million discount to the net proceeds we received in connection with the issuance of the notes has been recorded in long-term debt in the condensed consolidated financial statements and is being accreted as an increase to interest expense over the term of the notes. In May 2011, Cricket issued an additional $400 million of 7.75% unsecured senior notes due 2020 in a private placement to institutional buyers at an issue price of 99.193% of the principal amount. The $3.2 million discount to the net proceeds we received in connection with the issuance of the additional notes was recorded in long-term debt in the condensed consolidated financial statements and is being accreted as an increase to interest expense over the term of the notes. At September 30, 2011, the effective interest rates on the initial $1,200 million tranche and the additional $400 million tranche of the notes were 7.87% and 7.81%, respectively, both of which include 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 April 2011. 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) that guarantees indebtedness 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 above, 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 STX Wireless and Cricket Music) and Savary Island and their respective subsidiaries. In addition, the notes and the guarantees are senior in right of payment to any of Leap's, Cricket's and the guarantors' future subordinated indebtedness.

Prior to October 15, 2013, Cricket may redeem up to 35% of the aggregate principal amount of the notes at a redemption price of 107.750% of the principal amount thereof, plus accrued and unpaid interest and additional interest, if any, thereon to the redemption date, from the net cash proceeds of specified equity offerings. Prior to October 15, 2015, Cricket may redeem the notes, in whole or in part, at a redemption price equal to 100% of the principal amount thereof plus the applicable premium and any accrued and unpaid interest and additional interest, if any, thereon to the redemption date. The applicable premium is calculated as the greater of (i) 1.0% of the principal amount of such notes and (ii) the excess of (a) the present value at such date of redemption of (1) the redemption price of such notes at October 15, 2015 plus (2) all remaining required interest payments due on such notes through October 15, 2015 (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 October 15, 2015, at a redemption price of 103.875%, 102.583% and 101.292% of the principal amount thereof if redeemed during the twelve months beginning on October 15, 2015, 2016 and 2017, respectively, or at 100% of the principal amount if redeemed during the twelve months beginning on October 15, 2018 or thereafter, plus accrued and unpaid interest and additional interest, if any, thereon to the redemption date.

If a “change of control” occurs (which includes the acquisition of beneficial ownership of 35% or more of Leap's equity securities (other than a transaction where immediately after such transaction Leap will be a wholly-owned subsidiary of a person of which no person or group is the beneficial owner of 35% or more of such person's voting stock), a sale of all or substantially all of the assets of Leap and its restricted subsidiaries and a change in a majority of the members of Leap's board of directors that is not approved by the board), each holder of the notes may require Cricket to repurchase all of such holder's notes at a purchase price equal to 101% of the principal amount of the notes, plus accrued and unpaid interest and additional interest, if any, thereon to the repurchase date.

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

In connection with the private placement of the additional $400 million of notes in May 2011, we entered into a registration rights agreement with the initial purchasers of the notes in which we agreed to file and have declared effective a registration statement with the SEC to permit the holders to exchange or resell the notes. We filed a registration statement on Form S-4 with the SEC on October 3, 2011 for the exchange of the notes for registered notes, which registration statement was declared effective on October 13, 2011. The exchange offer will expire on November 10, 2011, unless extended. We must use reasonable best efforts to consummate the exchange offer within 30 business days after the effective date of the registration statement. In the event that the exchange offer is not consummated within this deadline, the agreement provides that additional interest will accrue on the principal amount of these additional notes at a rate of 0.50% per annum during the 90-day period immediately following such event and will increase by 0.50% per annum at the end of each subsequent 90-day period, but in no event will the penalty rate exceed 1.50% per annum. There are no other alternative settlement methods and, other than the 1.50% per annum maximum penalty rate, the agreement contains no limit on the maximum potential amount of additional interest that could be paid in the event we do not meet this requirement under the registration rights agreement.

Fair Value of Financial Instruments and Non-Financial Assets

As more fully described in Note 4 to our condensed consolidated financial statements included in “Part I - Item 1. Financial Statements” of this report, we apply the authoritative guidance for fair value measurements to our assets and liabilities. The guidance defines fair value as an exit price, which is the price that would be received upon the sale of an asset or paid upon the 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.

We have categorized our 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. Such

Level 3 assets and liabilities 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 and estimation. As of September 30, 2011 and December 31, 2010, none of our financial assets required fair value to be measured using Level 3 inputs. However, as more fully described in Note 4 to our condensed consolidated financial statements included in “Part I - Item 1. Financial Statements” of this report, we have non-financial assets measured at fair value using Level 3 inputs on a non-recurring basis.

Generally, our results of operations are not significantly impacted by our assets and liabilities accounted for at fair value due to the nature of each asset and liability.

We continue to report our long-term debt obligations at amortized cost and disclose the fair value of such obligations.

Capital Expenditures, Significant Acquisitions and Other Transactions

Capital Expenditures

During the nine months ended September 30, 2011, we made approximately $289.3 million in capital expenditures. These capital expenditures were primarily for the ongoing maintenance and development of our network and other business assets and the initial deployment of next-generation LTE network technology.

Total capital expenditures for 2011 are expected to be between $425 million and $475 million. These capital expenditures are primarily expected to support the ongoing maintenance and development of our network and other business assets and the initial deployment of next-generation LTE network technology.

We currently target annual capital expenditures to support the ongoing maintenance and development of our network and other business assets in the mid-teens as a percentage of our annual service revenues and currently expect to continue capital expenditures in a similar range over the next several years. The actual amount of capital expenditures we spend in future years for these purposes may vary as a result of numerous factors, including our then-available capital resources and customer usage of our network resources.

As previously noted, we currently plan to deploy next-generation LTE network technology across approximately two-thirds of our current network footprint over the next two to three years. We plan to launch a commercial trial market in late 2011 and to cover approximately 25 million POPs with LTE in 2012. Capital expenditures for the deployment of LTE are currently anticipated to be less than $10 per covered POP. Approximately half of the estimated capital expenditures for LTE deployment are included in our capital expense budget for the ongoing maintenance and development of our network. The actual amount we spend to deploy LTE each year will depend upon multiple factors, including the scope and pace of our deployment activities.

STX Wireless Joint Venture

Cricket service is offered in South Texas by our joint venture STX Operations. Cricket controls STX Operations through a 75.75% controlling membership interest in its parent company STX Wireless. 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 to create a joint venture to provide Cricket service in the South Texas region. In exchange for such contributions, Cricket received a 75.75% controlling membership interest in STX Wireless and Pocket received a 24.25% non-controlling membership interest. Additionally, in connection with the transaction, we made payments to Pocket of approximately $40.7 million in cash.

The joint venture strengthens our presence and competitive positioning in the South Texas region. Commencing October 1, 2010, STX Operations began providing Cricket service to approximately 700,000 customers, of which approximately 323,000 were contributed by Pocket, with a network footprint covering approximately 4.4 million POPs.

The joint venture is controlled and managed by Cricket under the terms of the amended and restated limited liability company agreement of STX Wireless, or the STX LLC Agreement. Under the STX LLC Agreement, Pocket has the right to put, and we have 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 is obligated to sell to us all of its membership interests in STX Wireless. The purchase price for Pocket's membership interests would be equal to 24.25% of the product 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. The purchase price is 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). We have the right to deduct from or set off against the purchase price certain distributions made to Pocket, as well as any obligations owed to us by Pocket. Under the STX LLC Agreement, Cricket is 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. To the extent the redemption price for Pocket's non-controlling membership interest varies from the value of Pocket's net interest in STX Wireless at any period (after the attribution of profits or losses), the value of such interest is accreted to the redemption price for such interest with a corresponding adjustment to additional paid-in capital. For the nine months ended September 30, 2011 and for the year ended December 31, 2010, we recorded a net accretion benefit of $11.3 million and accretion charges of $48.1 million, respectively, to bring the carrying value of Pocket's membership interests in STX Wireless to its estimated redemption values of $88.3 million and $99.5 million, respectively. Additionally, and in accordance with the STX LLC Agreement, STX Wireless made pro-rata distributions of $5.7 million and $1.7 million to Cricket and Pocket, respectively, with respect to their estimated tax liabilities resulting from STX Wireless' earnings relating to the nine months ending September 30, 2011. We recorded the distribution to Pocket as an adjustment to additional paid-in-capital in the condensed consolidated balance sheets and as a component of accretion of redeemable non-controlling interests and distributions, net of tax, in the condensed consolidated statements of operations. The distribution made to Cricket was eliminated in consolidation.

At the closing of the formation of the joint venture, 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 October 2020 and the date on which Pocket ceases to hold any membership interests in STX Wireless. Cricket has the right to set off all outstanding principal and interest under this loan and security agreement 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.

We have been integrating the Cricket and Pocket operating assets in the South Texas region so that the combined network and retail operations of the STX Wireless joint venture will operate more efficiently. During the three and nine months ended September 30, 2011, we incurred approximately $23.3 million and $23.9 million of integration charges relating primarily to certain leased cell site and retail store locations that we will no longer use, which were recorded in impairments and other charges within our condensed consolidated statements of operations. Although continued integration activities are expected, additional integration charges related to such activities are expected to be minimal.

In a separate transaction, on January 3, 2011, we acquired Pocket's customer assistance call center for $850,000. We accounted for this transaction as a business purchase combination in accordance with the authoritative guidance for business combinations. A portion of the purchase price was assigned to property and equipment and the remaining amount was allocated to goodwill.

Savary Island Venture

Cricket owns an 85% non-controlling membership interest in Savary Island, which holds wireless spectrum in the upper Midwest portion of the U.S. and which leases a portion of that spectrum to us. On December 27, 2010, immediately prior to Cricket's purchase of the remaining 17.5% controlling membership interest in Denali that it did not previously own, Denali contributed all of its wireless spectrum outside of the 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 membership interest. Savary Island acquired this spectrum as a “very small business” designated entity under FCC regulations. Ring Island Wireless, LLC, or Ring Island, contributed $5.1 million of cash to Savary Island in exchange for a 15% controlling membership interest. On March 31, 2011, Denali and its subsidiaries were merged with and into Cricket, with Cricket as the surviving entity.

Under the amended and restated limited liability company agreement of Savary Island, or the Savary Island LLC Agreement, Ring Island has the right to put its entire controlling membership interest in Savary Island to Cricket during the 30-day period commencing on the earlier to occur of May 1, 2012 (based on current FCC rules) and the date of a sale of all or substantially all of the assets, or the liquidation, of Savary Island, and during any 30-day period commencing after a breach by Cricket of its obligation to pay spectrum lease fees or fund working capital loans under the Savary Island Credit Agreement (see below) which breach has continued for 120 days after written notice of breach. The purchase price for such sale is an amount equal to Ring Island's equity contributions to Savary Island less any optional distributions made pursuant to the Savary Island LLC Agreement, plus $150,000 if the sale is consummated prior to May 1, 2017 without incurring any unjust enrichment payments. If the put option is exercised, the consummation of the sale will be subject to FCC approval. We have recorded this obligation to purchase Ring Island's controlling membership interest in Savary Island as a component of redeemable non-controlling interest in the condensed consolidated balance sheets. Savary Island has guaranteed Cricket's put obligations under the Savary Island

LLC Agreement, which guaranty is secured on a first-lien basis by certain assets of Savary Island. Under the Savary Island LLC Agreement, Savary Island is also required to make monthly mandatory distributions to Ring Island. Savary Island is also party to a management services agreement with Cricket, pursuant to which Cricket provides management services to Savary Island in exchange for a management fee.

We attribute profits and losses to Ring Island's redeemable non-controlling interest each reporting period. To the extent that the redemption price for Ring Island's controlling membership interest exceeds the value of Ring Island's net interest in Savary Island at any period (after the attribution of profits or losses), the value of such interest is accreted to the redemption price for such interest with a corresponding adjustment to additional paid-in capital. However, we would not reduce the carrying amount of the redeemable non-controlling interest below the redemption price. Both the attribution of profit or loss and the accretion of the redeemable non-controlling interest are presented in accretion of redeemable non-controlling interests and distributions, net of tax, in our condensed consolidated statements of operations. As of September 30, 2011 and December 31, 2010, this redeemable non-controlling interest had a carrying value of $5.3 million.

At the closing of the formation of the venture, Savary Island assumed $211.6 million of the outstanding loans then owed by Denali and its subsidiaries to Cricket. In connection with Savary Island's assumption of such loans, Cricket, Savary Island and Savary Island's subsidiaries entered into an amended and restated senior secured credit agreement, dated as of December 27, 2010, or the Savary Island Credit Agreement, to amend and restate the terms of the Denali senior secured credit agreement applicable to the assumed loans. Under the Savary Island Credit Agreement, Cricket also agreed to loan Savary Island up to an additional $5.0 million to fund its working capital needs. As of September 30, 2011 and December 31, 2010, borrowings under the Savary Island Credit Agreement totaled $211.6 million. Loans under the Savary Island Credit Agreement (including the assumed loans) accrue interest at the rate of 9.5% per annum and such interest is added to principal annually. All outstanding principal and accrued interest is due in May 2021. Outstanding principal and accrued interest are due in quarterly installments commencing May 2018. However, if Ring Island exercises its put under the Savary Island LLC Agreement prior to such date, then the amortization commencement date under the Savary Island Credit Agreement will be the later of the amortization commencement date and the put closing date. Savary Island may prepay loans under the Savary Island Credit Agreement at any time without premium or penalty. The obligations of Savary Island and its subsidiaries under the Savary Island Credit Agreement are secured by all of the personal property, fixtures and owned real property of Savary Island and its subsidiaries, subject to certain permitted liens. The Savary Island Credit Agreement and the related security agreements contain customary representations, warranties, covenants and conditions.

Other Transactions

On May 4, 2011, we and Savary Island entered into license exchange agreements with T-Mobile and its affiliates in which Cricket and Savary Island have agreed to assign 10 MHz of unused wireless spectrum in Indianapolis, IN, Minneapolis, MN and Syracuse, NY to T-Mobile and its affiliates. In exchange, Cricket will receive 10 MHz of additional wireless spectrum in seven existing Cricket markets in Texas, Colorado, Oklahoma and New Mexico and will cancel a portion of the indebtedness owed by Savary Island to Cricket. We and Savary Island have also entered into spectrum lease arrangements with T-Mobile and its affiliates for the interim lease of the spectrum subject to the exchange for the period until the closing. The FCC granted its consent to this transaction in October 2011. Completion of the license exchange is subject to customary closing conditions. The wireless licenses to be transferred to T-Mobile under the license exchange agreements have been classified in assets held for sale at their carrying value of $30.4 million in the condensed consolidated balance sheet as of September 30, 2011.

On February 11, 2011, we entered into an agreement with Global Tower, LLC (“GTP”) to sell certain of our telecommunications tower assets in one or more closings. During the second and third quarters of 2011, we sold those telecommunications towers and related assets for approximately $25.8 million. The transaction was structured as a sale lease-back financing, in which we entered into a 10-year lease agreement with GTP to continue our commercial use of the towers. Accordingly, we recorded a capital lease obligation of $25.8 million, which was equal to the proceeds received from GTP.

On June 30, 2011, one of our equity method investees declared a cash dividend and paid the dividend with funds borrowed under a third-party line of credit. Our share of the dividend based on our ownership percentage was $18.2 million and was received in full on July 1, 2011. In the condensed consolidated statement of cash flows for the nine months ended September 30, 2011, we presented the portion of the dividend equal to our share of accumulated profits (approximately $6.6 million) as cash from operating activities and the remainder (approximately $11.6 million) as cash from investing activities, as it represented a return of our original investment.

On August 2, 2010, we entered into a wholesale agreement with an affiliate of Sprint Nextel which we use to offer Cricket wireless services in nationwide retailers outside our current network footprint using Sprint's network. We and Sprint amended the agreement in July 2011 to, among other things, revise the amount of the annual minimum revenue commitments for the years 2011 and 2013.

The initial term of the wholesale agreement runs until December 31, 2015, and automatically renews for successive one-year periods unless either party provides 180-day advance notice to the other. Under the agreement, we will pay Sprint a specified amount per month for each subscriber activated on its network, subject to periodic market-based adjustments. We have agreed to provide Sprint with a minimum of $300 million of revenue under the agreement, as amended, over the initial five-year term (against which we can credit up to $100 million of service revenue under other existing commercial arrangements between the companies), with a minimum of $20 million of revenue to be provided in 2011, a minimum of $75 million of revenue to be provided in 2012, a minimum of $80 million of revenue to be provided in 2013, a minimum of $75 million of revenue to be provided in 2014 and a minimum of $50 million of revenue to be provided in 2015. Any revenue we provided in a given year above the minimum revenue commitment for that particular year will be credited to the next succeeding year. However, to the extent our revenues were to fall beneath the applicable commitment amount for any given year, excess revenues from a subsequent year could not be carried back to offset such shortfall.

In addition, in the event we are 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., or MetroPCS, either we (or our successor in interest) or Sprint may terminate the wholesale agreement within 60 days following the closing of such a transaction. In connection with any such termination, we (or our 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 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 we are involved in a change-of-control transaction with MetroPCS 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.

Recent Accounting Pronouncements

In May 2011, the Financial Accounting Standards Board, or FASB, issued Accounting Standards Update No. 2011-04, “Fair Value Measurements (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs,” (“ASU 2011-04”). ASU 2011-04 redefines many of the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements to ensure consistency between U.S. GAAP and IFRS. ASU 2011-04 also expands the disclosures for fair value measurements that are estimated using significant unobservable (Level 3) inputs. This new guidance is effective for us beginning in the first quarter of 2012 and is to be applied prospectively. We anticipate that the adoption of this standard will not significantly expand our condensed consolidated financial statement footnote disclosures.

In June 2011, the FASB issued Accounting Standards Update No. 2011-05, “Comprehensive Income (Topic 220): Presentation of Comprehensive Income,” (“ASU 2011-05”). ASU 2011-05 eliminates the option to report other comprehensive income and its components in the statement of changes in equity. ASU 2011-05 requires that all nonowner changes in stockholders' equity be presented in either a single continuous statement of comprehensive income or in two separate but consecutive statements. This new guidance is effective for us beginning in the first quarter of 2012 and is to be applied retrospectively.

In September 2011, the FASB issued Accounting Standards Update No. 2011-08, “Goodwill Impairment Testing,” (“ASU 2011-08”). ASU 2011-08 simplifies the requirements for testing for goodwill impairment and permits an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test as described in the authoritative guidance for goodwill. This new guidance is effective for us beginning in the first quarter of 2012 and will be applied prospectively. We anticipate that the adoption of this standard will not materially impact us or our condensed consolidated financial statement footnote disclosures.

Off-Balance Sheet Arrangements

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk

Our senior secured, senior and convertible senior notes all bear interest at fixed rates, and our non-negotiable promissory note bears interest that varies year to year at rates ranging from approximately 5.0%-8.3% and compounds annually. As a result, we do not expect fluctuations in interest rates to have a material adverse effect on our business, financial condition or results of operations.

Our investment portfolio consists of highly liquid, fixed-income investments with contractual maturities of less than one year. The fair value of such a portfolio is less sensitive to market fluctuations than a portfolio of longer term securities. Accordingly, we believe that a sharp change in interest rates would not have a material effect on our investment portfolio.

Item 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

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

Management, with participation by our CEO and CFO, has designed our disclosure controls and procedures to provide reasonable assurance of achieving desired objectives. As required by SEC Rule 13a-15(b), in connection with filing this Quarterly Report on Form 10-Q, management conducted an evaluation, with the participation of our CEO and our CFO, of the effectiveness of the design and operation of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the Exchange Act, as of September 30, 2011, the end of the period covered by this report. Based upon that evaluation, our CEO and CFO concluded that our disclosure controls and procedures were effective at the reasonable assurance level as of September 30, 2011.

(b) Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the fiscal quarter ended September 30, 2011 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II

OTHER INFORMATION

Item 1. Legal Proceedings

As more fully described below, we are involved in a variety of lawsuits, claims, investigations and proceedings concerning intellectual property, commercial, business practices and other matters. Due in part to the expansion and development of our business operations, we have become subject to increased amounts of litigation, including disputes alleging intellectual property infringement.

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

Legal proceedings are inherently unpredictable, and the matters in which we are involved often present complex legal and factual issues. We vigorously pursue defenses in legal proceedings and engage in discussions where possible to resolve these matters on terms favorable to us. It is possible, however, that our business, financial condition and results of operations in future periods could be materially adversely affected by increased litigation expense, significant settlement costs and/or unfavorable damage awards.

Patent Litigation

DNT

On May 1, 2009, we were sued by DNT LLC, or DNT, in the United States District Court for the Eastern District of Virginia, Richmond Division, for alleged infringement of U.S. Reissued Patent No. RE37,660 entitled “Automatic Dialing System.” DNT alleges that we use, encourage the use of, sell, offer for sale and/or import voice and data service and wireless modem cards for computers designed to be used in conjunction with cellular networks and that such acts constitute both direct and indirect infringement of DNT's patent. DNT alleges that our infringement is willful, and the complaint seeks an injunction against further infringement, unspecified damages (including enhanced damages) and attorneys' fees. On July 23, 2009, we filed an answer to the complaint as well as counterclaims. 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 us has been stayed, pending resolution of that other case, which was recently affirmed on appeal.

Digital Technology Licensing

On October 31, 2011, we entered into an agreement with Digital Technology Licensing LLC, or DTL, to settle a matter brought against us and certain other wireless carriers (including Hargray Wireless LLC, or Hargray Wireless), a company which we acquired in April 2008 and which was merged with and into Cricket in December 2008) on April 21, 2009 in the United States District Court for the Southern District of New York. DTL alleged that we and Hargray Wireless sold and/or offered to sell Bluetooth® devices or digital cellular telephones, including Kyocera and Sanyo telephones, and that such acts constituted direct and/or indirect infringement of U.S. Patent No. 5,051,799 entitled “Digital Output Transducer.” DTL further alleged that we and Hargray Wireless directly and/or indirectly infringed 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 alleged that the asserted infringement was willful, and the complaint sought a permanent injunction against further infringement, unspecified damages (including enhanced damages), attorneys' fees, and expenses. The action was dismissed on August 24, 2011, subject to the right of the parties to refile the action in the event that the settlement had not been finalized.

Department of Justice Inquiry

On August 18, 2011, we settled a matter with the Civil Division of the United States Department of Justice, or the DOJ. The DOJ had previously alleged, in a letter to us on January 7, 2009, that between approximately 2002 and 2006, we failed to comply with certain federal postal regulations that required us to update customer mailing addresses in exchange for receiving certain bulk mailing rate discounts and, as a result, that we violated the False Claims Act, or the FCA, and were therefore liable for damages.

Pentwater Capital Management

On July 26, 2011, we entered into an agreement with Pentwater Capital Management LP and certain of its affiliates, or Pentwater, to settle an action brought by Pentwater in the Delaware Court of Chancery on June 20, 2011. The action related to a notice of nominations, dated March 10, 2011, by which Pentwater purported to nominate three directors for election at our 2011 Annual Meeting of Stockholders, or the Annual Meeting, which was held on July 28, 2011. We advised Pentwater that the notice they delivered was not in proper form because it did not comply with provisions of our bylaws and that as a result any shares voted with respect to any nominees of Pentwater would not be counted for the purpose of determining the election of directors at the Annual Meeting. Pentwater's complaint sought a declaration that Article II, Section 8(a)(2)(D)(iv) of our Amended and Restated Bylaws was invalid under Delaware law. Pentwater also alleged that members of our board of directors breached their fiduciary duties by adopting revisions to the advance notice provisions in our Amended and Restated Bylaws on December 2, 2010. Under the terms of the settlement, Pentwater agreed to irrevocably withdraw their notice of intention to nominate directors for election and to dismiss the action with prejudice. Pentwater also agreed to vote all shares of Leap stock they held on the record date in favor of each of the directors nominated by our board of directors at the Annual Meeting. Under the terms of the settlement, we increased the size of Leap's board to nine directors, appointed Robert E. Switz and Richard R. Roscitt as directors and appointed Mr. Roscitt to the Nominating and Corporate Governance Committee and to the Compensation Committee. The action was dismissed on August 2, 2011.

Other Litigation, Claims and Disputes

In addition to the matters described above, we are often involved in certain other matters which generally arise in the ordinary course of business and which seek monetary damages and other relief. Based upon information currently available to us, none of these other matters is expected to have a material adverse effect on our business, financial condition or results of operations.

Item 1A. Risk Factors

There have been no material changes to the Risk Factors described under "Part I - Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2010 filed with the SEC on February 25, 2011, as amended and supplemented by the Risk Factors described under "Part II - Item 1A. Risk Factors" in our Quarterly Report on Form 10-Q for the three months ended June 30, 2011 filed with the SEC on August 5, 2011, other than:

- Changes to the risk factor below entitled "If We Are Unable to Manage Our Growth, Our Operations Could Be Adversely Impacted," which has updated to reflect risks relating to the expansion of our nationwide distribution;

- Changes to the risk factors below entitled "Our Ability to Use Our Net Operating Loss Carryforwards to Reduce Future Tax Payments Could Be Negatively Impacted if There Is an "Ownership Change" (as Defined Under Section 382 of the Internal Revenue Code); Our Tax Benefit Preservation Plan May Not Be Effective to Prevent an Ownership Change" and "Provisions in Our Amended and Restated Certificate of Incorporation and Bylaws, under Delaware Law, in Our Indentures or in Our Tax Benefit Preservation Plan Might Discourage, Delay or Prevent a Change in Control of Our Company or Changes in Our Management and, Therefore, Depress the Trading Price of Leap Common Stock," which have been updated to reflect our adoption of the Tax Benefit Preservation Plan;

- Changes to the risk factor below entitled "The Wireless Industry Is Experiencing Rapid Technological Change. We Plan to Deploy LTE Network Technology, Which Will Require Us to Make Significant Capital Investments," which has updated to reflect risks related to our planned launch of LTE network technology;

-

- Changes to the risk factor below entitled "We Rely Heavily on Third Parties to Provide Specialized Services; a Failure or Inability by Such Parties to Provide the Agreed Upon Products or Services Could Materially Adversely Affect Our Business, Results of Operations and Financial Condition," which has updated to reflect risks related to our use of vendors;

- Changes to the risk factor below entitled "We May Incur Higher Than Anticipated Intercarrier Compensation Costs," which has updated to reflect changes in regulatory proceedings; and

- Changes to the risk factor below entitled "Our Directors and Affiliated Entities Have Substantial Influence over Our Affairs, and Our Ownership Is Highly Concentrated. Sales of a Significant Number of Shares by Large Stockholders May Adversely Affect the Market Price of Leap Common Stock," which has updated to reflect additional shares of Leap common stock acquired by an entity affiliated with a member of our board of directors.

Risks Related to Our Business and Industry

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

We experienced net losses of $94.1 million and $239.0 million for the three and nine months ended September 30, 2011, and net losses of $785.1 million, $238.0 million and $143.4 million for the years ended December 31, 2010, 2009 and 2008, respectively. We may not generate profits in the future on a consistent basis or at all. Our strategic objectives depend on our ability to successfully and cost-effectively operate our markets, on our ability to forecast and respond appropriately to changes in the competitive and economic environment, on the successful expansion of our distribution channels, and on customer acceptance of our Cricket product and service offerings. If we fail to attract additional customers for our Cricket products and services and fail to achieve consistent profitability in the future, that failure could have a material adverse effect on our financial condition.

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

Our growth on a quarter-by-quarter basis has varied substantially in the past. We believe that this uneven growth generally reflects seasonal trends in customer activity, promotional activity, competition in the wireless telecommunications market, our pace of new market launches and varying national economic conditions. Our current business plans assume that we will continue to increase our customer base over time, providing us with increased economies of scale. However, we experienced net decreases in our total customers of 111,718 and 199,949 in the second and third quarters of 2010, respectively, and a net decrease in our total customers of 103,140 in the second quarter of 2011. Our ability to continue to grow our customer base and to achieve the customer penetration levels we currently believe are possible in our markets is subject to a number of risks, including, among other things, increased competition from existing or new competitors, higher-than-anticipated churn, our inability to manage or increase our network capacity to meet increasing customer demand, unfavorable economic conditions (which may have a disproportionate negative impact on portions of our customer base), our inability to successfully expand our distribution channels, changes in the demographics of our markets, adverse changes in the legislative and regulatory environment and other factors that may limit our ability to grow our customer base. If we are unable to attract and retain a growing customer base, our current business plans and financial outlook may be harmed.

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

The wireless telecommunications industry is very competitive. In general, we compete with national facilities-based wireless providers and their prepaid affiliates or brands, local and regional carriers, non-facilities-based MVNOs, voice-over-internet-protocol service providers, traditional landline service providers, cable companies and mobile satellite service providers. 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 present additional strong competition in markets in which our offerings overlap.

Many of our competitors have greater name and brand recognition, larger spectrum holdings, larger footprints, access to greater amounts of capital, greater technical, sales, marketing and distribution resources and established relationships with a larger base of current and potential customers. These advantages may allow our competitors to provide service offerings with more extensive features and options than those we currently provide, offer the latest and most popular devices through exclusive vendor arrangements, market to broader customer segments and offer service over larger geographic areas than we can, offer bundled service offerings which include landline phone, television and internet services that we are not able to duplicate, and purchase equipment, supplies, devices and services at lower prices than we can. As device selection and pricing become increasingly important to customers, our inability to offer customers the latest and most popular devices as a result of exclusive dealings between device manufacturers and our larger competitors could put us at a significant competitive disadvantage and make it more difficult for us to attract and retain customers. In addition, some of our competitors are able to offer their customers roaming services at lower rates. As consolidation in the industry creates even larger competitors, advantages that our competitors may have, as well as their bargaining power as wholesale providers of roaming services, may increase. For example, in connection with the offering of our nationwide voice and data roaming services, we have encountered problems with certain large wireless carriers in negotiating terms for roaming arrangements that we believe are reasonable, and we believe that consolidation has contributed significantly to some carriers' control over the terms and conditions of wholesale roaming services. On March 20, 2011, T-Mobile, the nation's fourth-largest wireless carrier, announced that it had entered into an agreement to be acquired by AT&T, the nation's second-largest carrier, a transaction which will require regulatory review and approval. If approved, the combination of these two carriers could further exacerbate competitive imbalances in the wireless industry.

The competitive pressures of the wireless telecommunications industry and the attractive growth prospects in the prepaid segment have continued to increase and have caused a number of our competitors to offer competitively-priced unlimited prepaid and postpaid service offerings or increasingly large bundles of minutes of use at increasingly lower prices, which are competing with the predictable and unlimited Cricket Wireless service plans. For example, AT&T, Sprint Nextel, T-Mobile and Verizon Wireless each now offer unlimited service offerings. Sprint Nextel also offers competitively-priced unlimited service offerings under its Boost Unlimited and Virgin Mobile brands, which are similar to our Cricket Wireless service. T-Mobile also offers an unlimited plan that is competitively priced with our Cricket Wireless service. In addition, a number of MVNOs offer competitively-priced service offerings. For example, Tracfone Wireless sells wireless offerings exclusively in Wal-Mart under its “Straight Talk” brand using a number of carriers' wireless networks. We also face additional competition in the prepaid segment from lifeline service offerings by competitors including Tracfone (through its SafeLink offerings) and Sprint Nextel (through its Assurance Wireless offerings). Lifeline services are available to consumers at reduced costs (and in some cases at no cost) because carriers offering this service receive a subsidy payment from the federal Universal Service Fund program. Moreover, some competitors offer prepaid wireless plans that are being advertised heavily to the same demographic segments we target. These various service offerings have presented, and are expected to continue to present, strong competition in markets in which our offerings overlap.

In addition to voice offerings, there are a number of mobile broadband services that compete with our Cricket Broadband service. AT&T, Sprint Nextel, T-Mobile and Verizon Wireless each offer mobile broadband services. In addition, Clearwire Corporation has launched unlimited 4G wireless broadband service in a number of markets in which we offer Cricket Broadband. Best Buy also recently launched a mobile broadband product using Sprint's wireless network. These broadband service offerings have presented, and are expected to continue to present, strong competition in markets in which our mobile broadband offerings overlap.

We may also face additional competition from new entrants in the wireless marketplace, many of whom may have significantly more resources than we do. The FCC is pursuing policies designed to increase the number of wireless licenses and spectrum available for the provision of voice, data and mobile broadband services in each of our markets, as well as policies to increase the level of intermodal broadband competition. For example, the FCC has adopted rules that allow the partitioning, disaggregation and leasing of wireless licenses, which may increase the number of our competitors. The FCC announced in March 2010, as part of its National Broadband Plan, the goal of making an additional 500 MHz of spectrum available for broadband use within the next 10 years, of which the FCC stated that 300 MHz should be made available for mobile use within five years. The FCC has also adopted policies to allow satellite operators to use portions of their spectrum for ancillary terrestrial use and recently made further changes intended to facilitate the terrestrial use of this spectrum for voice, data and mobile broadband services. Taking advantage of such developments, at least one new entrant, LightSquared, has announced plans to launch a new wholesale, nationwide 4G-LTE wireless broadband network integrated with satellite coverage to allow partners to offer terrestrial-only, satellite-only or integrated satellite-terrestrial services to their customers. The FCC has also permitted the offering of broadband services over power lines. The auction and licensing of new spectrum, the re-purposing of other spectrum or the pursuit of policies designed to encourage broadband adoption across wireline and wireless platforms may result in new or existing competitors acquiring additional capacity, which could allow them to offer services that we may not be able to offer cost effectively, or at all, with the licenses we hold or to which we have access.

Our ability to remain competitive will depend, in part, on our ability to anticipate and respond to various competitive factors and to keep our costs low. The evolving competitive landscape negatively impacted our financial and operating results beginning in 2009, resulting in fewer new customers, lower average monthly revenue per customer and increased costs. We substantially revised our product and service offerings in August 2010 to respond to the evolving competitive landscape, including offering "all-inclusive" service plans, eliminating certain telecommunications taxes and certain other fees that we previously charged to customers, eliminating the free first month of service that we previously provided to new customers, and offering "smartphones" and other new handsets and devices. We believe that these changes to our business have made our product and service offerings more attractive to customers and improved our competitive position, and they are producing improved operating and financial performance. These more recent initiatives have also resulted in increased costs, including equipment subsidy for new and upgrading customers. The extent to which our new initiatives will be successful and impact our future financial and operating results will depend upon continued customer acceptance of our new product and service offerings and our ability to retain these customers. The evolving competitive landscape may result in more competitive pricing, slower growth, higher costs and increased customer turnover. Any of these results or actions could have a material adverse effect on our business, financial condition and operating results.

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

Our business and financial performance are sensitive to changes in general economic conditions, including changes in interest rates, consumer credit conditions, consumer debt levels, consumer confidence, rates of inflation (or concerns about deflation), unemployment rates, energy costs and other macro-economic factors. Market and economic conditions have been unprecedented and challenging in recent years. Continued concerns about the systemic impact of a long-term downturn, high unemployment, high energy costs, the availability and cost of credit and unstable housing and mortgage markets have contributed to increased market volatility and economic uncertainty. Concern about the stability of the financial markets and the strength of counterparties has led many lenders and institutional investors to reduce or cease to provide credit to businesses and consumers, and less liquid credit markets have adversely affected the cost and availability of credit. These factors have led to a decrease in spending in recent years by businesses and consumers alike.

Continued market turbulence and weak economic conditions may materially adversely affect our business and financial performance in a number of ways. Because we do not require customers to sign fixed-term contracts or pass a credit check, our service is available to a broad customer base and may be attractive to a market segment that is more vulnerable to weak economic conditions. As a result, during general economic downturns, we may have greater difficulty in gaining new customers within this base for our services and existing customers may be more likely to terminate service due to an inability to pay. For example, high unemployment levels have impacted our customer base, especially the lower-income segment of our customer base, by decreasing their discretionary income and affecting their ability to maintain service. Continued weak economic conditions and tight credit conditions may also adversely impact our vendors and dealers, some of which have filed for or may be considering bankruptcy, or may experience cash flow or liquidity problems, any of which could adversely impact our ability to distribute, market or sell our products and services. For example, in 2009, Nortel Networks, which has provided a significant amount of our network infrastructure, entered into bankruptcy reorganization and sold substantially all of its network infrastructure business to Ericsson. Sustained difficult, or worsening, general economic conditions could have a material adverse effect on our business, financial condition and results of operations.

In addition, U.S. credit markets have in recent years experienced significant dislocations and liquidity disruptions which caused the spreads on prospective debt financings to widen considerably. These circumstances materially impacted liquidity in the debt markets, making financing terms for borrowers less attractive and resulting in the unavailability of some forms of debt financing. Uncertainty in the credit or capital markets could negatively impact our ability to access additional debt financing or to refinance existing indebtedness in the future on favorable terms or at all. These general economic conditions, combined with intensified competition in the wireless telecommunications industry and other factors, have also adversely affected the trading prices of equity securities of many U.S. companies, including Leap, which could significantly limit our ability to raise additional capital through the issuance of common stock, preferred stock or other equity securities. Any of these risks could impair our ability to fund our operations or limit our ability to expand our business, which could have a material adverse effect on our business, financial condition and results of operations.

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

Our rates of customer acquisition and turnover are affected by a number of competitive factors in addition to the macro-economic factors described above, including the size of our service areas, network performance and reliability issues, our device and service offerings, customer perceptions of our services, customer care quality and wireless number portability. Managing these factors and customers' expectations is essential in attracting and retaining customers. Although we have implemented programs to attract new customers and address customer turnover, we cannot assure you that these programs or our strategies to address customer acquisition and turnover will be successful. A high rate of customer turnover or low or negative rate of new customer acquisition would reduce revenues and increase the total marketing expenditures required to attract the minimum number of customers required to sustain our business plan which, in turn, could have a material adverse effect on our business, financial condition and results of operations.

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

We own an 85% non-controlling membership interest in Savary Island. Savary Island is a “very small business” designated entity under FCC regulations, which holds wireless spectrum in the upper Midwest portion of the U.S. and which leases a portion of that spectrum to us. Our participation in Savary Island is structured as a non-controlling membership interest in accordance with FCC rules and regulations. We have agreements with our venture partner in Savary Island that are intended to allow us to participate to a limited extent in the development of the business through the venture. However, these agreements do not provide us with control over the business strategy, financial goals, build-out plans or other operational aspects of the venture, and may be terminated for convenience by the controlling member. The FCC's rules restrict our ability to acquire controlling membership interests in designated entities during the period that such entities must maintain their eligibility as a designated entity, as defined by the FCC.

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

The FCC has implemented rule changes aimed at addressing alleged abuses of its designated entity program. While we do not believe that these recent rule changes materially affect our Savary Island venture, the scope and applicability of these rule changes to these designated entity structures remain in flux and have been subject to administrative and judicial review. For example, on August 24, 2010, the United States Court of Appeals for the Third Circuit vacated certain of the FCC's revisions to its designated entity rules, and on March 28, 2011, the United States Supreme Court denied review of the decision. We also cannot predict whether and to what extent the FCC will seek to reinstate or to further modify the designated entity rules. In addition, third parties and the federal government have in the past challenged certain designated entity structures, alleging violations of federal qui tam and other laws and seeking significant monetary damages. We cannot predict the degree to which rule changes, federal court litigation surrounding designated entity structures, increased regulatory scrutiny or third party or government lawsuits will affect our current or future business ventures, including our arrangements with respect to Savary Island or our or Savary Island's current license holdings or our participation in future FCC spectrum auctions.

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

Many of our competitors have regional or national networks which enable them to offer automatic roaming services to their subscribers at a lower cost than we can offer. The networks we operate do not, by themselves, provide national coverage and we must pay fees to other carriers who provide roaming and wholesale services to us. We currently rely on roaming agreements with several carriers for the majority of our roaming services and generally on one key carrier for our data roaming services. We have also entered into a wholesale agreement which we use to offer Cricket wireless services in nationwide retailers outside of our current network footprint. Most of our roaming agreements cover voice but not data services and some of these agreements may be terminated on relatively short notice. In addition, we believe that the rates charged to us by some of these carriers are higher than the rates they charge to certain other roaming partners.

The FCC has adopted a report and order and a further order on reconsideration clarifying that commercial mobile radio service providers are required to provide automatic roaming for voice and SMS text messaging services on just, reasonable and non-discriminatory terms. The FCC also recently adopted an order and new rules that require carriers to offer automatic roaming for data services on commercially reasonable terms, subject to certain exceptions. These orders do not provide or mandate any specific mechanism for determining the reasonableness of roaming rates for voice, SMS text messaging or data services and require that roaming complaints be resolved on a case-by-case basis, based on a non-exclusive list of factors that can be taken into account in determining the reasonableness of particular conduct or rates. In addition, the FCC's data roaming order is not final and could be subject to further reconsideration by the FCC or appeal in federal court.

In light of the current FCC rules, orders and proceedings, if we were unexpectedly to lose the benefit of one or more key roaming or wholesale agreements, we may be unable to obtain similar replacement agreements and as a result may be unable to continue providing nationwide voice and data roaming services for our customers or may be unable to provide such services on a cost-effective basis. Any such inability to obtain replacement agreements on a cost-effective basis may limit our ability to compete effectively for wireless customers, which may increase our churn and decrease our revenues, which in turn could materially adversely affect our business, financial condition and results of operations.

We May Not Realize the Expected Benefits from Our New Wholesale Arrangement.

On August 2, 2010, we entered into a wholesale agreement with an affiliate of Sprint Nextel which we use to offer Cricket wireless services in nationwide retailers outside our current network footprint using Sprint's network. We and Sprint amended the agreement in July 2011 to, among other things, revise the amount of the annual minimum revenue commitments for the years 2011 and 2013. We have agreed, among other things, to provide a minimum of $300 million of revenue under the agreement, as amended, over its initial five-year term (against which we can credit up to $100 million of service revenue under other existing commercial arrangements between the companies), with a minimum of $20 million of revenue to be provided in 2011, a minimum of $75 million of revenue to be provided in 2012, a minimum of $80 million of revenue to be provided in 2013, a minimum of $75 million of revenue to be provided in 2014 and a minimum of $50 million of revenue to be provided in 2015. Any revenue we provide in a given year above the minimum revenue commitment for that particular year will be credited to the next succeeding year. However, to the extent our revenues were to fall beneath the applicable commitment amount for any given year, excess revenues from a subsequent year could not be carried back to offset such shortfall.

In addition, in the event we are 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), either we (or our successor in interest) or Sprint may terminate the agreement within 60 days following the closing of such a transaction. In connection with any such termination, we (or our 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 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 we are involved in a change-of-control transaction with MetroPCS 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.

We entered into this new wholesale agreement to enable us to offer enhanced products and services and to strengthen and expand our distribution. However, there are risks and uncertainties that could impact our ability to realize the expected benefits from this arrangement. We may be unable to expand our retail distribution to the extent that we have planned, and customers may not accept our products and service offerings at the levels we expect. We cannot guarantee that we will be able to generate sufficient revenue to satisfy the annual and aggregate minimum revenue commitments or that prices for wireless services will not decline to levels below what we have negotiated to pay under the wholesale agreement. We also cannot guarantee that we will be able to renew the agreement on terms that will be acceptable to us following the completion of the initial five-year term of the agreement. If we are unable to attract new wireless customers and increase our distribution, our ability to derive benefits from this new agreement could be limited, which could materially adversely affect our business, financial condition and results of operations.

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

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

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

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

Although we believe we took appropriate actions to remediate the control deficiencies we identified and to strengthen our internal control over financial reporting, we cannot assure you that we will not discover other material weaknesses in the future or that no material weakness will result from any difficulties, errors, delays or disruptions while we implement and transition to significant new internal systems, including the recent transition to our new customer billing system. The existence of one or more material weaknesses could result in errors in our financial statements, and substantial costs and resources may be required to rectify these or other internal control deficiencies. If we cannot produce reliable financial reports, investors could lose confidence in our reported financial information, the market price of Leap common stock could decline significantly, we may be unable to obtain additional financing to operate and expand our business, and our business and financial condition could be harmed.

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

A major element of our business strategy is to offer consumers unlimited wireless services for a flat rate without requiring them to enter into a fixed-term contract or pass a credit check. We provide nationwide voice, data and mobile broadband wireless services through our own Cricket network footprint and through roaming agreements that we have entered into with other carriers. In addition, we have entered into a national wholesale agreement which we use to offer Cricket wireless services in nationwide retailers outside of our current network footprint. Our strategy of offering unlimited wireless services may not prove to be successful in the long term. From time to time, we also evaluate our product and service offerings and the demands of our target customers and may modify, change, adjust or discontinue our product and service offerings or offer new products and services on a permanent, trial or promotional basis. We cannot assure you that these product or service offerings will be successful or prove to be profitable.

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

We have experienced substantial growth in a relatively short period of time, and we expect to continue to experience growth in the future in our markets. During 2009, new markets were launched in Chicago, Philadelphia, Washington, D.C., Baltimore and Lake Charles covering approximately 24.2 million additional POPs. In addition, we have pursued other opportunities within recent years to continue to strengthen and expand our business. These activities have included the broadening of our portfolio of products and services, including through the introduction of our Cricket Broadband and Cricket PAYGo services, our new "all-inclusive" rate plans and our new Muve Music service. We have also pursued activities to strengthen and expand the available network service area for Cricket products and services, which have included enhancing network coverage and capacity in our existing markets, entering into agreements to provide Cricket customers with nationwide voice and data roaming services as well as a wholesale agreement which we use to offer Cricket services in nationwide retailers outside of our current network footprint. We have also pursued activities to continue to strengthen our growing retail presence in our existing markets and expand our distribution nationwide. During the third quarter of 2011, we expanded our nationwide sales presence by offering Cricket products and services in hundreds of additional mass-market retail locations, and we expect to continue expanding our distribution into thousands of additional locations by the end of 2011.

The management of our growth requires, among other things, continued development of our financial controls, budgeting and forecasting processes and information management systems, stringent control of costs, diligent management of our network infrastructure and its growth, increased spending associated with marketing activities and the acquisition of new customers, the ability to attract and retain qualified management personnel and the training of new personnel. Furthermore, the implementation of new or expanded systems or platforms to accommodate our growth, and the transition to such systems or platforms from our existing infrastructure, could result in unpredictable technological or other difficulties. Failure to successfully manage our expected growth and development, to effectively manage our markets, to enhance our processes and management systems or to timely and adequately resolve any such difficulties could have a material adverse effect on our business, financial condition and results of operations.

In addition, the growth in our markets, the integration of newly-acquired markets or businesses, the introduction of new device offerings such as the "smartphones" we introduced in August 2010 and the continued expansion of our distribution nationwide require continued management and control of our device inventories. 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. We have recently implemented a new inventory management system and have undertaken other efforts to address inventory forecasting. In addition, we are currently considering using an additional vendor to assist us with device forecasting, fulfillment and related tasks. However, there can be no assurance that we will not experience inventory shortages in the future. Any failure to effectively manage and control our device inventories could adversely affect our ability to gain new customers and have a material adverse effect on our business, financial condition and results of operations.

We May Have Difficulty Managing and Integrating New Joint Ventures or Partnerships That We Form or Companies or Businesses That We Acquire.

In addition to growing our business through the operation of our existing and new markets, we may also expand our business by entering into joint ventures or partnerships with others or acquiring other wireless communications companies or complementary businesses. For example, in October 2010, we and Pocket contributed substantially all of our respective wireless spectrum and operating assets in the South Texas region to STX Wireless to create a joint venture to provide Cricket service in the South Texas region. In exchange for such contributions, Cricket received a 75.75% controlling membership interest in STX Wireless and Pocket received a 24.25% non-controlling membership interest. Commencing October 1, 2010, STX Operations began providing Cricket service to approximately 700,000 customers with a network footprint covering approximately 4.4 million POPs.

Entering into joint ventures and partnerships or acquiring other companies or businesses may create numerous risks and uncertainties, including unanticipated costs and liabilities, possible difficulties associated with the integration of the parties' various operations and the potential diversion of management's time and attention from our existing operations. In addition, the consolidation of operating assets and operations following an acquisition or the formation of a joint venture may result in significant costs. For example, we have been integrating the Cricket and Pocket operating assets in the South Texas region so that the combined network and retail operations of the STX Wireless joint venture will operate more efficiently. During the three and nine months ended September 30, 2011, we incurred approximately $23.3 million and $23.9 million, respectively, of integration charges relating primarily to certain leased cell site and retail store locations that we will no longer use, which were recorded in impairments and other charges within our condensed consolidated statements of operations. Although continued integration activities are expected, additional integration charges related to such activities are expected to be minimal. Our failure to effectively manage and integrate STX Wireless or other new partnerships that we may enter into or companies or businesses that we could acquire could have a material adverse effect on our business, financial condition and results of operations.

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

We have now and will continue to have a significant amount of indebtedness. As of September 30, 2011, our total outstanding indebtedness was $3,227.4 million, including $250 million in aggregate principal amount of convertible senior notes due 2014, $300 million in aggregate principal amount of senior notes due 2015, $30.4 million in principal amount of a non-negotiable promissory note maturing in 2015, $1,100 million in aggregate principal amount of senior secured notes due 2016 and $1,600 million in aggregate principal amount of senior notes due 2020.

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

- make it more difficult for us to service all of our debt obligations;
- increase our vulnerability to general adverse economic and industry conditions;
- impair our ability to obtain additional financing in the future for working capital needs, capital expenditures, network build-

out and other activities, including acquisitions and general corporate purposes;

- require us to dedicate a substantial portion of our cash flows from operations to the payment of principal and interest on our indebtedness, thereby reducing the availability of our cash flows to fund working capital needs, capital expenditures, acquisitions and other general corporate purposes;
- limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate; and
- place us at a disadvantage compared to our competitors that have less indebtedness.

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

Despite Current Indebtedness Levels, We May Incur Additional Indebtedness. This Could Further Increase the Risks Associated with Our Leverage.

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

We may incur additional indebtedness in the future, as market conditions permit, to enhance our liquidity and to provide us with additional flexibility to pursue business investment initiatives, which could consist of debt financing from the public and/or private capital markets. To provide flexibility with respect to any future capital raising alternatives, we have filed a universal shelf registration statement with the SEC to register various debt, equity and other securities, including debt securities, common stock, preferred stock, depository shares, rights and warrants. The securities under this registration statement may be offered from time to time, separately or together, directly by us or through underwriters, at amounts, prices, interest rates and other terms to be determined at the time of any offering.

If new indebtedness is added to our current levels of indebtedness, the related risks that we now face could intensify. In addition, depending on the timing and extent of any additional indebtedness that we could incur and our then-current consolidated leverage ratio, such additional amounts could potentially result in the issuance of adverse credit ratings affecting us and/or our outstanding indebtedness, which could make it more difficult or expensive for us to borrow in the future and could affect the trading prices of our secured and unsecured senior notes, our convertible senior notes and our common stock.

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

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

We May Be Unable to Refinance Our Indebtedness.

We may need to refinance all or a portion of our indebtedness before maturity, including indebtedness under the indentures governing our secured and unsecured senior notes and convertible senior notes. Our $250 million of 4.50% unsecured convertible senior notes is due in 2014, our $300 million of 10.0% unsecured senior notes is due in 2015, our $1,100 million of 7.75% senior secured notes is due in 2016, and our $1,600 million of 7.75% unsecured senior notes is due in 2020. There can be no assurance that we will be able to obtain sufficient funds to enable us to repay or refinance any of our indebtedness on commercially reasonable terms or at all.

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

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

- incur additional indebtedness;
- create liens or other encumbrances;
- place limitations on distributions from restricted subsidiaries;
- pay dividends, make investments, prepay subordinated indebtedness or make other restricted payments;
- issue or sell capital stock of restricted subsidiaries;
- issue guarantees;
- sell or otherwise dispose of all or substantially all of our assets;
- enter into transactions with affiliates; and
- make acquisitions or merge or consolidate with another entity.

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

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

If we default under any of the indentures governing our secured or unsecured senior notes or convertible senior notes because of a covenant breach or otherwise, all outstanding amounts thereunder could become immediately due and payable. We cannot assure you that we would be able to obtain a waiver should a default occur. Any acceleration of amounts due would have a material adverse effect on our liquidity and financial condition, and we cannot assure you that we would have sufficient funds to repay all of the outstanding amounts under the indentures governing our secured and unsecured senior notes and convertible senior notes.

Our Ability to Use Our Net Operating Loss Carryforwards to Reduce Future Tax Payments Could Be Negatively Impacted if There Is an “Ownership Change” (as Defined Under Section 382 of the Internal Revenue Code); Our Tax Benefit Preservation Plan May Not Be Effective to Prevent an Ownership Change.

We have substantial federal and state NOLs for income tax purposes. Subject to certain requirements, we may “carry forward” our federal NOLs for up to 20 years to offset future taxable income and reduce our income tax liability. For state income tax purposes, the NOL carryforward period ranges from five to 20 years. At September 30, 2011, we had federal and state NOLs of approximately $2.4 billion (which begin to expire in 2022 for federal income tax purposes and of which $0.3 million will expire at the end of 2011 for state income tax purposes). While these NOL carryforwards have a potential to be used to offset future ordinary taxable income and reduce future cash tax liabilities by approximately $914.6 million, our ability to utilize these NOLs will depend upon the availability of future taxable income during the carryforward period and, as such, there is no assurance we will be able to realize such tax savings.

Our ability to utilize NOLs could be further limited if we were to experience an “ownership change,” as defined in Section 382 of the Internal Revenue Code and similar state provisions. In general terms, a change in ownership can occur whenever there is a cumulative 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 occurrence of such a change in our ownership would generally limit the amount of NOL carryforwards we could utilize in a given year to the aggregate fair market value of Leap 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.

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 we would be required to make and likely result in a substantial portion of our NOLs expiring before we could fully utilize them. As a result, any restriction on our ability to utilize these NOL carryforwards could have a material adverse impact on our 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. Accordingly, on August 30, 2011, our 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 our ability to use our 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 our board of directors. Because the number of shares of Leap common stock outstanding at any particular time for purposes of the Tax Benefit Preservation Plan is determined in accordance with Section 382, it may differ from the number of shares that we report as outstanding in our SEC filings.

Although the Tax Benefit Preservation Plan is intended to reduce the likelihood of an adverse ownership change under Section 382, the Tax Benefit Preservation Plan may not prevent such an ownership change from occurring and does not protect against all transactions that could cause an ownership change, such as sales of Leap common stock by certain greater than 5% stockholders or transactions that occurred prior to the adoption of the Tax Benefit Preservation Plan (including by any greater than 5% stockholders who have not disclosed their ownership under Schedules 13D or 13G of the Securities Exchange Act of 1934). Accordingly, we cannot assure you that an ownership change under Section 382 will not occur and significantly limit the use of our NOLs.

A Significant Portion of Our Assets Consists of Wireless Licenses, Goodwill and Other Intangible Assets.

As of September 30, 2011, 39.4% of our assets consisted of wireless licenses, goodwill and other intangible assets. The value of our assets will depend on market conditions, the availability of buyers and similar factors. While the value of these assets is determined by using the market approach for purposes of our impairment testing, those values may differ from what would ultimately be realized by us in a sales transaction and that difference may be material. By their nature, our intangible assets may not be readily saleable or, if saleable, there may be substantial delays in their liquidation. For example, prior FCC approval is required in order for us to sell, or for any remedies to be exercised by our lenders with respect to, our wireless licenses, and obtaining such approval could result in significant delays and reduce the proceeds obtained from the sale or other disposition of our wireless licenses.

The Wireless Industry Is Experiencing Rapid Technological Change. We Plan to Deploy LTE Network Technology, Which Will Require Us to Make Significant Capital Investments.

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

Competitors have begun providing competing wireless telecommunications service through the use of next-generation technologies, such as LTE, WiMax and HSPA+. We currently plan to deploy LTE network technology across approximately two-thirds of our current network footprint over the next two to three years. We cannot predict, however, which of the many possible future technologies, products or services will be important to maintain our competitive position. The evolutionary path that we have selected or may select in the future may not be demanded by customers or provide the advantages that we expect. If such services are not commercially accepted, our revenues and competitive position could be materially and adversely affected. In addition, the cost of implementing or competing against alternative or future technological innovations may be prohibitive to us, and we may lose customers if we fail to keep up with these changes.

Our deployment of LTE will require significant capital investment. We plan to launch a commercial trial market in late 2011 and to cover approximately 25 million POPs with LTE in 2012. Capital expenditures for the deployment of LTE are currently anticipated to be less than $10 per covered POP. Approximately half of the estimated capital expenditures for LTE deployment are included in our capital expense budget for the ongoing maintenance and development of our network. The actual amount we spend to deploy LTE each year will depend upon multiple factors, including the scope and pace of our deployment activities. We may, however, have unanticipated or unforeseen costs in connection with the deployment of LTE and the maintenance of our network.

In addition, we may be required to acquire additional spectrum or take other actions to enable us to provide LTE at service levels that will meet future customer expectations. We currently have an average of 23 MHz of spectrum in the markets we operate, which generally include an initial spectrum reserve that we plan to use to deploy LTE. The national wireless carriers against which we compete generally have greater spectrum capacity than we do in the markets in which we plan to launch LTE. Because the efficiency of an LTE network and the peak speeds that it can deliver depends upon the amount of contiguous spectrum that is available, these competitors may be able to offer faster speeds for their next-generation services or operate those networks more efficiently than we can. As a result, we may be required to take various actions to meet consumer demand, including acquiring additional spectrum, entering into third-party wholesale or roaming arrangements, leasing additional cell sites, spending additional capital to deploy equipment or other actions. We cannot assure you that we would be able to take any of these actions at reasonable costs, on a timely basis or at all.

We cannot assure you that widespread demand for advanced data services will develop at a price level that will allow us to earn a reasonable return on our investment. In addition, there are risks that other wireless carriers on whose networks our customers roam may change their technology to other technologies that are incompatible with ours. As a result, the ability of our customers to roam on such carriers' wireless networks could be adversely affected. If these risks materialize, our business, financial condition or results of operations could be materially adversely affected. Further, we may not be able to negotiate or maintain cost-effective data roaming agreements on LTE or other data networks, and we are not able to assure you that customer devices that operate on LTE or other data networks will be available at costs that will make them attractive to customers.

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

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

Our business is managed by a small number of key executive officers, including our CEO, S. Douglas Hutcheson and our CFO, Walter Z. Berger. In addition, we recently hired new members of senior management to help support our corporate and field operations, which included the appointment of Raymond J. Roman as our executive vice president and chief operating officer and Robert A. Young as our executive vice president, field operations. We also recently implemented a new regional president structure to oversee customer and sales activity, hiring new members of management to oversee two of our three new regions. As several members of senior management have been hired relatively recently, it may take time to fully integrate these individuals into their new roles. The loss of key individuals in the future may have a material adverse impact on our ability to effectively manage and operate our business. In addition, we may have difficulty attracting and retaining key personnel in future periods, particularly if we were to experience poor operating or financial performance.

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

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

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

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

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

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

We depend heavily on suppliers and contractors with specialized expertise in order for us to efficiently operate our business. Generally, there are multiple sources for the types of products and services we purchase or use. However, we currently rely on one key vendor for billing services, a single vendor to support the platform for our Muve Music service, a single vendor for the operation of our network operations center, a limited number of vendors for device forecasting, fulfillment and related tasks, a limited number of vendors for voice and data communications transport services and a limited number of vendors for payment processing services. In addition, we are currently considering using an additional vendor to assist us with device forecasting, fulfillment and related tasks.

In the past, our suppliers, contractors and third-party retailers have not always performed at the levels we expect or at the levels required by their contracts. If key suppliers, contractors, service providers or third-party retailers fail to comply with their contracts, fail to meet our performance expectations or refuse or are unable to supply or provide services to us in the future, our business could be severely disrupted. Because of the costs and time lags that can be associated with transitioning from one supplier or service provider to another, our business could be substantially disrupted if we were required to replace the products or services of one or more major suppliers or service providers with products or services from another source, especially if the replacement became necessary on short notice. Any such disruption could have a material adverse effect on our business, results of operations and financial condition.

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

Our technical infrastructure (including our network infrastructure and ancillary functions supporting our network such as service activation, billing and customer care) is vulnerable to damage or interruption from technology failures, power surges or outages, natural disasters, fires, human error, terrorism, intentional wrongdoing or similar events. Unanticipated problems at our facilities or with our technical infrastructure, system or equipment failures, hardware or software failures or defects, computer viruses or hacker attacks could affect the quality of our services and cause network service interruptions. Unauthorized access to or use of customer or account information, including credit card or other personal data, could result in harm to our customers and legal actions against us, and could damage our reputation. In addition, earthquakes, floods, hurricanes, fires and other unforeseen natural disasters or events could materially disrupt our business operations or the provision of Cricket service in one or more markets. For example, during the third quarter of 2008, our customer acquisitions, cost of service and revenues in certain markets were adversely affected by Hurricane Ike and related weather systems. Costs we incur to restore, repair or replace our network or technical infrastructure, as well as costs associated with detecting, monitoring or reducing the incidence of unauthorized use, may be substantial and increase our cost of providing service. Any failure in or interruption of systems that we or third parties maintain to support ancillary functions, such as billing, point of sale, inventory management, customer care and financial reporting, could materially impact our ability to timely and accurately record, process and report information important to our business. If any of the above events were to occur, we could experience higher churn, reduced revenues and increased costs, any of which could harm our reputation and have a material adverse effect on our business, financial condition or results of operations.

We Have Upgraded a Number of Significant Business Systems, Including Our Customer Billing System, and Any Unanticipated Difficulties, Delays or Interruptions with the Transition Could Negatively Impact Our Business.

During the past year, we upgraded a number of our significant, internal business systems, including implementing a new inventory management system, point-of-sale system and customer billing system. The implementation of significant new systems often involves delays and disruptions in connection with the transition to and operation of the new systems. During the second quarter of 2011, we experienced post-launch issues with certain aspects of our new customer billing system which we believe may have impacted customers and temporarily increased churn. We cannot assure you that we will not experience additional disruptions during the initial operating phase of our billing and other new systems. Significant, unexpected difficulties in operating our new systems could materially impact our ability to attract and retain customers or to timely and accurately record, process and report information that is important to our business. If any of the above events were to occur, we could experience higher churn, reduced revenues and increased costs or could suffer a material weaknesses in our internal control over financial reporting, any of which could harm our reputation and have a material adverse effect on our business, financial condition or results of operations.

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

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

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

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

We Use Equipment, Software, Technology and Content in the Operation of Our Business Which May Subject Us to Third-Party Infringement Claims.

The technologies used in the telecommunications industry are protected by and subject to a wide array of patents and other intellectual property rights. As a result, third parties have asserted and may in the future assert infringement claims against us or our suppliers based on our or their general business operations and the equipment, software, technology or other content that we or they use or provide. Due in part to the expansion and development of our business operations, we have become subject to increased amounts of litigation, including disputes alleging patent and other intellectual property infringement relating to the operation of our networks and our sale of handsets and other devices. See “Part II - Item 1. Legal Proceedings - Patent Litigation” of this report for a description of certain patent infringement lawsuits that have been brought against us. If plaintiffs in any patent litigation matters brought against us were to prevail, we could be required to pay substantial damages or settlement costs, and we could be required to alter the way we conduct business to avoid future infringement, which could have a material adverse effect on our business, financial condition and results of operations.

In addition, we rely on third-party intellectual property and digital content to provide certain of our wireless services to customers, including Muve Music, an unlimited music download service we offer that is designed specifically for mobile handsets. The Muve Music service requires us to license music and other intellectual property rights of third parties. We cannot guarantee that these licenses will continue to be available to us on commercially reasonable terms or at all. Our licensing arrangements with these third parties are generally short-term in nature and do not guarantee the continuation or renewal of these arrangements on reasonable terms, if at all. Our inability to continue to offer customers a wide variety of content at reasonable costs to us could limit the success of our Muve Music product. In addition, we could become subject to infringement claims and potential liability for damages or royalties related to music and intellectual property rights of third parties, including as a result of any unauthorized access to the third-party content we have licensed.

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

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

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

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

In addition, legislative or regulatory action could be taken which could limit our ability to use certain foreign vendors to supply us with equipment, materials or other services that we use in our business operations. For example, we have previously purchased equipment used in our wireless network from a Chinese company. Members of the U.S. Congress and certain regulatory agencies have raised concerns about American companies purchasing equipment and software from Chinese companies, including Chinese telecommunications companies, including concerns relating to the U.S. trade imbalance with China, alleged violations of intellectual property rights by Chinese companies and potential security risks posed by U.S. companies purchasing technical equipment and software from Chinese companies. Any legislative or regulatory action that might restrict us from purchasing equipment or software from Chinese or other foreign companies could require changes in our equipment procurement activities.

The Digital Millennium Copyright Act, or DMCA, prohibits the circumvention of technological measures employed to protect a copyrighted work, or access control. However, under the DMCA, the Copyright Office has the authority to exempt for three years certain activities from copyright liability that otherwise might be prohibited by that statute. In July 2010, the Copyright Office granted an exemption to the DMCA to allow circumvention of software locks and other firmware that prohibit a wireless handset from connecting to a wireless network when such circumvention is accomplished for the sole purpose of lawfully connecting the wireless handset to another wireless telephone network. The DMCA copyright exemption facilitates our current practice of allowing customers to bring in unlocked, or "reflashed," phones that they already own and may have used with another wireless carrier, and activate them on our network. To the extent that the Copyright Office determines in the future not to extend this exemption for an extended period of time and this prevents us from “flashing” devices or activating “reflashed” devices on our network, this could have a material adverse impact on our business, financial condition and results of operations.

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

In addition, certain states in which we provide service are considering legislation that would require companies selling prepaid wireless services to verify a customer's identity using government identification. Although we request identification from new customers, we currently do not require them to provide identification in order to initiate service with us, and such a requirement could adversely impact our ability to attract new customers for our services.

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

If Customer Usage of Our Services Exceeds Our Expectations, Our Costs of Providing Service Could Increase, Which Could Have a Material Adverse Effect on Our Operating Expenses.

Our most popular Cricket Wireless service plans bundle certain features with unlimited local and U.S. long distance service and unlimited text messaging, along with mobile web, 411 services, navigation and data back-up, for a fixed monthly fee to more effectively compete with other telecommunications providers. In August 2010, we introduced “smartphones” and other new devices which use greater amounts of network capacity than the handsets and devices we previously offered. We also offer Cricket Broadband, our unlimited mobile broadband service, and Cricket PAYGo, a pay-as-you-go unlimited prepaid wireless service. In early 2011, we launched Muve Music, an unlimited music download service designed specifically for mobile handsets, in select Cricket markets, and following this successful launch we have expanded the service to cover all of our markets. We provide nationwide voice, data, mobile broadband and music download services through our own Cricket network footprint and through roaming and wholesale agreements that we have entered into with other carriers. Customers usage of these services has been significant.

If customers exceed expected usage for our voice, data, mobile broadband or music download services, we could face capacity problems and our costs of providing the services could increase. Although we own less spectrum in many of our markets than our competitors, we seek to design our network to accommodate our expected high rates of usage for our services, and we continue to assess and seek to implement technological improvements to increase the efficiency of our wireless spectrum. We currently manage our network and users of our Cricket Broadband service by limiting throughput speeds if their usage adversely impacts our network or service levels or if usage exceeds certain thresholds. However, if future wireless use by Cricket customers increases faster than we anticipate and exceeds the then-available capacity of our network, service quality may suffer. In addition, our roaming or wholesale costs may be higher than we anticipate. Depending on the extent of customers' use of our network and roaming or wholesale services we expect to provide in the future, we may be forced to raise the price or alter the service offerings of our wireless or mobile broadband services, further limit data quantities or speeds, otherwise limit the number of new customers for certain services, acquire additional spectrum, or incur substantial additional capital expenditures to enhance network capacity or quality.

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

Because we offer unlimited voice, data, mobile broadband and music download services for a flat monthly rate, our customers' average usage of these services per month is substantially above U.S. averages. We intend to meet demand for our services by utilizing spectrally efficient technologies or by entering into roaming or partnering agreements with other carriers. However, there may come a point where we need to acquire additional spectrum in order to maintain an acceptable grade of service or provide new services to meet increasing customer demands. For example, we currently operate on 10 MHz of spectrum in our Chicago market. In the future, we may be required to acquire additional spectrum in this and other markets to satisfy increasing demand (especially for data and mobile broadband services) or to support new technologies, such as the LTE network technology we expect to deploy over the next two to three years. In addition, we also may acquire additional spectrum in order to enter new strategic markets. However, we cannot assure you that we will be able to acquire additional spectrum at auction or in the after-market at a reasonable cost or at all or that additional spectrum would be made available by the FCC on a timely basis. In addition, the FCC may impose conditions on the use of new wireless broadband mobile spectrum, such as heightened build-out requirements or open access requirements, that may make it less attractive or economical for us. If such additional spectrum is not available to us when required on reasonable terms or at a reasonable cost, our business, financial condition and results of operations could be materially adversely affected.

Our and Savary Island's Wireless Licenses Are Subject to Renewal and May Be Revoked in the Event That We Violate Applicable Laws.

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

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

As of September 30, 2011, the carrying value of our and Savary Island's wireless licenses was approximately $1.9 billion. During the nine months ended September 30, 2011, we recorded an impairment charge of $0.4 million, and during the years ended December 31, 2010, 2009 and 2008, we recorded impairment charges of $0.8 million, $0.6 million and $0.2 million, respectively, with respect to our wireless licenses.

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

- consolidation in the wireless industry allows or requires carriers to sell significant portions of their wireless spectrum holdings;
- a sudden large sale of spectrum by one or more wireless providers occurs; or
- market prices decline as a result of the sale prices in FCC auctions.

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

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

Declines in Our Operating or Financial Performance Could Result in an Impairment of Our Indefinite-Lived Assets, Including Goodwill.

We assess potential impairments to our long-lived assets, including property and equipment and certain intangible assets, when there is evidence that events or changes in circumstances indicate that the carrying value may not be recoverable. We also assess potential impairments to indefinite-lived intangible assets, including goodwill and wireless licenses, annually and when there is evidence that events or changes in circumstances indicate that an impairment condition may exist. In the third quarter of 2010, in connection with our annual goodwill impairment test, we recorded an impairment charge of $430.1 million, reducing the carrying amount of our goodwill at the time 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 a new joint venture, STX Wireless, with Cricket receiving a 75.75% controlling membership interest in the venture and Pocket receiving a 24.25% non-controlling membership interest. The excess purchase price over the fair value of the net assets acquired and the related deferred income tax effects of the transaction resulted in goodwill of $31.1 million. Additionally, on January 3, 2011, we acquired Pocket's customer assistance call center for $850,000. A portion of the purchase price was assigned to property and equipment and the remaining amount was allocated to goodwill. We accounted for both transactions as business purchase combinations in accordance with the authoritative guidance for business combinations.

During the third quarter of 2011, we performed our annual assessment of our goodwill and determined that no impairment existed. We also evaluate on a quarterly basis whether any triggering events or changes in circumstances have occurred subsequent to the annual impairment test that would indicate an impairment condition exists. There can be no assurance that impairment conditions will not exist in the future that require further impairment charges to reduce the carrying amount of our goodwill.

We May Incur Higher Than Anticipated Intercarrier Compensation Costs.

When our customers use our service to call customers of local exchange carriers, we are required under the current intercarrier compensation scheme to pay the carrier that serves the called party, and any intermediary or transit carrier, for the use of their networks. While in most cases we have been successful in negotiating agreements with other carriers that impose reasonable reciprocal compensation arrangements, some local exchange carriers have claimed a right to unilaterally impose what we believe to be unreasonably high charges on us. Some of these carriers have threatened to pursue, have initiated, or may in the future initiate, claims against us to recover these charges, and the outcome of any such claims is uncertain. The FCC has been actively considering and taking regulatory action to attempt to address this situation but we cannot assure you that any FCC action will be beneficial to us. The adoption of adverse FCC rules, regulations or decisions or any FCC inaction could result in carriers successfully collecting higher intercarrier fees from us, which could materially adversely affect our business, financial condition and operating results.

More broadly, the FCC has been considering whether a unified intercarrier compensation regime can or should be established for all traffic exchanged between carriers, including commercial mobile radio services carriers. The FCC recently adopted an order which, among other things, institutes a uniform, national bill-and-keep framework for telecommunications traffic exchanged with a local exchange carrier, which will be phased in under a multi-year transition period. The order also reportedly clarifies certain aspects relating to compensation between wireless carriers and local exchange carriers in an effort to reduce disputes and address existing ambiguity with respect to these arrangements, although the full order has not yet been made available for review. There are also various other pending proceedings in the courts, at the FCC and before state regulatory bodies that may affect intercarrier compensation. New or modified intercarrier compensation rules, federal or state proceedings implementing or interpreting those rules and other judicial or regulatory decisions may increase the charges we are required to pay other carriers for terminating calls or transiting calls over telecommunications networks, increase the costs of, or make it more difficult to negotiate, new agreements with carriers, decrease the amount of revenue we receive for terminating calls from other carriers on our network, or result in significant costs to us for past and future termination charges. Any of these changes could have a material adverse effect on our business, financial condition and operating results.

We resell third party long distance services in connection with our offering of unlimited international long distance service. The charges for these services may be subject to change by the terminating or interconnecting carrier, or by the regulatory body having jurisdiction in the applicable foreign country. If the charges are modified, the terminating or interconnecting carrier may attempt to assess such charges retroactively on us or our third party international long distance provider. If such charges are substantial, or we cease providing service to the foreign destination, prospective customers may elect not to use our service and current customers may choose to terminate service. Such events could limit our ability to grow our customer base, which could have a material adverse effect on our business, financial condition and operating results.

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

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

Risks Related to Ownership of Leap Common Stock

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

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

- variations in our operating results or those of our competitors;
- announcements of technological innovations, new services or service enhancements, strategic alliances or significant agreements by us or by our competitors;
- entry of new competitors into our markets, changes in product and service offerings by us or our competitors, changes in the prices charged for product and service offerings by us or our competitors, or changes or upgrades in the network technologies used by us or our competitors;
- significant developments with respect to intellectual property or other litigation;
- announcements of and bidding in auctions for new spectrum;
- recruitment or departure of key personnel;
- changes in the estimates of our operating results or changes in recommendations by any securities analysts that elect to follow Leap common stock, or changes in our credit rating or those of our competitors;
- changes in the levels of our indebtedness;
- any default under any of the indentures governing our secured or unsecured senior notes or convertible senior notes because of a covenant breach or otherwise;
- rumors or speculation in the marketplace regarding acquisitions or consolidation in our industry, including regarding transactions involving Leap; and
- market conditions in our industry and the economy as a whole.

We have registered all shares of common stock that we may issue under our 2004 Stock Option, Restricted Stock and Deferred Stock Unit Plan, under our 2009 Employment Inducement Equity Incentive Plan and under our Employee Stock Purchase Plan.

When we issue shares under these stock plans, they can be freely sold in the public market. If any of Leap's stockholders causes a large number of securities to be sold in the public market, these sales could reduce the trading price of Leap common stock. These sales also could impede our ability to raise future capital.

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

Our directors and entities affiliated with them beneficially owned in the aggregate approximately 31.1% of Leap common stock as of October 28, 2011. Moreover, our five largest stockholders and entities affiliated with them beneficially owned in the aggregate approximately 65.3% of Leap common stock as of October 28, 2011. These stockholders have the ability to exert substantial influence over all matters requiring approval by our stockholders. These stockholders will be able to influence the election and removal of directors and any merger, consolidation or sale of all or substantially all of Leap's assets and other matters. This concentration of ownership could have the effect of delaying, deferring or preventing a change in control or impeding a merger or consolidation, takeover or other business combination.

Our resale shelf registration statements register for resale 15,537,869 shares of Leap common stock held by entities affiliated with one of our directors, or approximately 19.7% of Leap's outstanding common stock as of October 28, 2011. In addition, in connection with our offering of 7,000,000 shares of Leap common stock in the second quarter of 2009, we agreed to register for resale any additional shares of common stock that these entities or their affiliates may acquire in the future. We are unable to predict the potential effect that sales into the market of any material portion of such shares, or any of the other shares held by our other large stockholders and entities affiliated with them, may have on the then-prevailing market price of Leap common stock. If any of Leap's stockholders cause a large number of securities to be sold in the public market, these sales could reduce the trading price of Leap common stock. These sales could also impede our ability to raise future capital.

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

During the second quarter of 2009 we sold 7,000,000 shares of Leap common stock in an underwritten public offering. We could raise additional capital in the future, as market conditions permit, to enhance our liquidity and to provide us with additional flexibility to pursue business investment initiatives. Any additional capital we could raise could be significant and could consist of debt, convertible debt or equity financing from the public and/or private capital markets. To provide flexibility with respect to any future capital raising alternatives, we have filed a universal shelf registration statement with the SEC to register various debt, equity and other securities, including debt securities, common stock, preferred stock, depository shares, rights and warrants. The securities under this registration statement may be offered from time to time, separately or together, directly by us or through underwriters, at amounts, prices, interest rates and other terms to be determined at the time of any offering. To the extent that we were to elect to raise equity capital, this financing may not be available in sufficient amounts or on terms acceptable to us and could be dilutive to existing stockholders. In addition, these sales could reduce the trading price of Leap common stock and impede our ability to raise future capital.

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

As of October 28, 2011, 78,712,785 shares of Leap common stock were issued and outstanding, and 5,536,675 additional shares of Leap common stock were reserved for issuance, including 2,700,092 shares reserved for issuance upon the exercise of outstanding stock options under our 2004 Stock Option, Restricted Stock and Deferred Stock Unit Plan, as amended, 2,241,181 shares of common stock available for future issuance under our 2004 Stock Option, Restricted Stock and Deferred Stock Unit Plan, 151,750 shares reserved for issuance upon the exercise of outstanding stock options under our 2009 Employment Inducement Equity Incentive Plan, 143,375 shares of common stock available for future issuance under our 2009 Employment Inducement Equity Incentive Plan, and 300,277 shares available for future issuance under our Employee Stock Purchase Plan.

Leap has also reserved up to 4,761,000 shares of its common stock for issuance upon conversion of its $250 million in aggregate principal amount of convertible senior notes due 2014. Holders may convert their notes into shares of Leap common stock at any time on or prior to the third scheduled trading day prior to the maturity date of the notes, July 15, 2014. If, at the time of conversion, the applicable stock price of Leap common stock is less than or equal to approximately $93.21 per share, the notes will be convertible into 10.7290 shares of Leap common stock per $1,000 principal amount of the notes (referred to as the “base conversion rate”), subject to adjustment upon the occurrence of certain events. If, at the time of conversion, the applicable stock price of Leap common stock exceeds approximately $93.21 per share, the conversion rate will be determined pursuant to a formula based on the base conversion rate and an incremental share factor of 8.3150 shares per $1,000 principal amount of the notes, subject to adjustment. At an applicable stock price of approximately $93.21 per share, the number of shares of common stock issuable upon full conversion of the convertible senior notes would be 2,682,250 shares. Upon the occurrence of a “make-whole fundamental change” of Leap under the indenture, under certain circumstances the maximum number of shares of common stock issuable upon full conversion of the convertible senior notes would be 4,761,000 shares.

In addition, we have registered all shares of common stock that we may issue under our 2004 Stock Option, Restricted Stock and Deferred Stock Unit Plan, under our 2009 Employment Inducement Equity Incentive Plan and under our Employee Stock Purchase Plan. When we issue shares under these stock plans, they can be freely sold in the public market. If any of Leap's stockholders causes a large number of securities to be sold in the public market, these sales could reduce the trading price of Leap common stock. These sales also could impede our ability to raise future capital.

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

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

- require super-majority voting to amend some provisions in our amended and restated certificate of incorporation and bylaws;
- authorize the issuance of “blank check” preferred stock that our board of directors could issue to increase the number of outstanding shares to discourage a takeover attempt;
- prohibit stockholder action by written consent, and require that all stockholder actions be taken at a meeting of our stockholders;
- provide that the board of directors is expressly authorized to make, alter or repeal our bylaws; and
- establish advance notice requirements for nominations for elections to our board or for proposing matters that can be acted upon by stockholders at stockholder meetings.

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

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

On August 30, 2011, our board of directors adopted a Tax Benefit Preservation Plan as a measure intended to help preserve our ability to use our NOL carryforwards and to deter acquisitions of Leap common stock that could result in an ownership change under Section 382 of the Internal Revenue Code. 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 our board of directors. Because the Tax Benefit Preservation Plan may restrict a stockholder’s ability to acquire Leap common stock, it could discourage a tender offer for Leap common stock or make it more difficult for a third party to acquire a controlling position in our stock without our approval, and the liquidity and market value of Leap common stock may be adversely affected while the Tax Benefit Preservation Plan is in effect.

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

None.

Item 3. Defaults Upon Senior Securities

None.

Item 5. Other Information

Effective November 2, 2011, our CFO, Walter Z. Berger, was awarded performance share units pursuant to our 2004 Stock Option, Restricted Stock and Deferred Stock Unit Plan, as amended, or the 2004 Plan. The vesting of the units is tied to the performance of our Muve Music service and Mr. Berger's continued service.

Mr. Berger was awarded 35,000 target units, with the opportunity to earn up to a maximum of 131,250 units based on our achievement of performance measures for Muve Music for fiscal years 2011 and 2012. Each unit represents the right to receive one share of Leap common stock upon vesting and settlement of such unit.

If Muve Music revenues and new subscribers for 2011 both equal or exceed certain achievement levels, then a certain percentage of the target number of units (up to 250%) will become eligible for vesting, referred to as the "Preliminary Vesting Eligible Units". The Preliminary Vesting Eligible Units will then be multiplied between 0x and 1.5x based on the Muve Music subscribers churn rate for 2012 relative to certain other achievement levels. The resulting number of units, referred to as the “Final Vesting Eligible Units,” will vest, and shares of Leap common stock will be distributed with respect thereto, on December 31, 2013, subject to Mr. Berger's continued employment through that date.

If Mr. Berger's employment is terminated by the Company other than for cause, or by him for good reason, within 90 days prior to or 12 months following a change in control (as defined in the 2004 Plan), then the following number of Units will vest in full on the date of his termination of employment (or, if later, immediately prior to the occurrence of such change in control):

- If the termination occurs on or prior to December 31, 2011, the target number of units will vest.
- If the termination occurs during 2012, the Preliminary Vesting Eligible Units will vest.
- If the termination occurs after December 31, 2012, the Final Vesting Eligible Units will vest.

The foregoing description is qualified in its entirety by reference to the 2004 Plan, which was previously filed as Appendix A to the definitive proxy statement we filed with the SEC on April 6, 2007.

Item 6. Exhibits.

Index to Exhibits:

Exhibit Number	Description of Exhibit
3.1(1)	Certificate of Designations of Series A Junior Participating Preferred Stock, filed with the Secretary of State of the State of Delaware on August 31, 2011. .
4.1 (1)	Tax Benefit Preservation Plan, dated as of August 30, 2011, between Leap Wireless International, Inc. and Mellon Investor Services LLC, which includes the Form of Right Certificate as Exhibit B and the Summary of Rights to Purchase Preferred Shares as Exhibit C. .
10.1*†	First Amendment, effective July 21, 2011, to Private Label PCS Services Agreement between Sprint Spectrum L.P. and Cricket Communications, Inc. dated as of August 2, 2010.
10.2 (2)	Agreement dated July 26, 2011 by and among Leap Wireless International, Inc., Pentwater Capital Management LP, Pentwater Growth Fund Ltd., Pentwater Equity Opportunities Master Fund Ltd., Oceana Master Fund Ltd. and LMA SPC for and on behalf of Map 98 Segregated Portfolio.
31.1*	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32**	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS***	XBRL Instance Document
101.SCH***	XBRL Taxonomy Extension Schema Document
101.CAL***	XBRL Taxonomy Extension Calculation Linkbase document
101.DEF***	XBRL Taxonomy Extension Definition Linkbase document
101.LAB***	XBRL Taxonomy Extension Label Linkbase document
101.PRE***	XBRL Taxonomy Extension Presentation Linkbase document

*	Filed herewith.
**	This certification is being furnished solely to accompany this quarterly report pursuant to 18 U.S.C. § 1350, and is not being filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and is not to be incorporated by reference into any filing of Leap Wireless International, Inc.,

whether made before or after the date hereof, regardless of any general incorporation language in such filing.

*** Users of this data are advised that pursuant to Rule 406T of Regulation S-T, this XBRL information is being furnished and not filed herewith for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and Sections 11 or 12 of the Securities Act of 1933, as amended, and is not to be incorporated by reference into any filing, or part of any registration statement or prospectus, of Leap Wireless International, Inc., whether made before or after the date hereof, regardless of any general incorporation language in such filing.

† Portions of this exhibit (indicated by asterisks) have been omitted pursuant to a request for confidential treatment pursuant to Rule 24b-2 under the Securities Exchange Act of 1934.

(1) Filed as an exhibit to Leap's Current Report on Form 8-K dated August 30, 2011, filed with the SEC on August 31, 2011, and incorporated herein by reference.

(2) Filed as an exhibit to Leap's Current Report on Form 8-K dated July 26, 2011, filed with the SEC on July 27, 2011, and incorporated herein by reference.

SIGNATURES

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

	LEAP WIRELESS INTERNATIONAL, INC.
Date: November 2, 2011	By: /s/ S. Douglas Hutcheson S. Douglas Hutcheson President and Chief Executive Officer
Date: November 2, 2011	By: /s/ Walter Z. Berger Walter Z. Berger Executive Vice President and Chief Financial Officer