METROPCS COMMUNICATIONS INC
Form 10-Q
May 09, 2008

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-Q

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

For the quarterly period ended March 31, 2008

OR

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

For the transition period from__________ to__________

Commission File Number
1-33409
METROPCS COMMUNICATIONS, INC.
(Exact name of registrant as specified in its charter)

Delaware	**20-0836269**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
2250 Lakeside Boulevard Richardson, Texas	**75082-4304**
(Address of principal executive offices)	(Zip Code)

(214) 570-5800
(Registrant s telephone number, including area code)

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

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

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

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

On April 30, 2008, there were 348,496,235 shares of the registrant s common stock, $0.0001 par value, outstanding.

METROPCS COMMUNICATIONS, INC.
Quarterly Report on Form 10-Q
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PART I. FINANCIAL INFORMATION

PART II. OTHER INFORMATION

* No reportable information under this item.

PART I.
FINANCIAL INFORMATION

Item 1. Financial Statements.

MetroPCS Communications, Inc. and Subsidiaries
Condensed Consolidated Balance Sheets
(in thousands, except share and per share information)
(Unaudited)

	March 31, 2008	December 31, 2007
CURRENT ASSETS:		
Cash and cash equivalents	$ 1,310,729	$ 1,470,208
Inventories, net	65,475	109,139
Accounts receivable (net of allowance for uncollectible accounts of $3,173 and $2,908 at March 31, 2008 and December 31, 2007, respectively)	32,827	31,809
Prepaid charges	51,336	60,469
Deferred charges	37,331	34,635
Deferred tax asset	4,920	4,920
Other current assets	21,657	21,704
Total current assets	1,524,275	1,732,884
Property and equipment, net	2,038,194	1,891,411
Long-term investments	28,049	36,050
FCC licenses	2,072,895	2,072,895
Microwave relocation costs	10,517	10,105
Other assets	226,661	62,785
Total assets	$ 5,900,591	$ 5,806,130
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	$ 438,353	$ 439,449
Current maturities of long-term debt	16,000	16,000
Deferred revenue	132,829	120,481
Other current liabilities	4,860	4,560
Total current liabilities	592,042	580,490
Long-term debt, net	2,981,572	2,986,177
Deferred tax liabilities	306,949	290,128
Deferred rents	41,776	35,779
Redeemable minority interest	5,335	5,032
Other long-term liabilities	89,399	59,778
Total liabilities	4,017,073	3,957,384
COMMITMENTS AND CONTINGENCIES (See Note 13)		
STOCKHOLDERS EQUITY:		

Preferred stock, par value $0.0001 per share, 100,000,000 shares authorized; no shares of preferred stock issued and outstanding at March 31, 2008 and December 31, 2007		
Common Stock, par value $0.0001 per share, 1,000,000,000 shares authorized, 348,248,876 and 348,108,027 shares issued and outstanding at March 31, 2008 and December 31, 2007, respectively	35	35
Additional paid-in capital	1,533,931	1,524,769
Retained earnings	377,930	338,411
Accumulated other comprehensive loss	(28,378)	(14,469)
Total stockholders equity	1,883,518	1,848,746
Total liabilities and stockholders equity	$ 5,900,591	$ 5,806,130

The accompanying notes are an integral part of these condensed consolidated financial statements.

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MetroPCS Communications, Inc. and Subsidiaries
Condensed Consolidated Statements of Income and Comprehensive Income
(in thousands, except share and per share information)
(Unaudited)

	For the three months ended March 31, 2008	2007
REVENUES:		
Service revenues	$ 561,970	$ 439,516
Equipment revenues	100,384	97,170
Total revenues	662,354	536,686
OPERATING EXPENSES:		
Cost of service (excluding depreciation and amortization expense of $48,656 and $35,174, shown separately below)	188,473	145,335
Cost of equipment	200,158	173,308
Selling, general and administrative expenses (excluding depreciation and amortization expense of $8,644 and $4,206, shown separately below)	104,374	72,937
Depreciation and amortization	57,300	39,380
Loss on disposal of assets	21	3,050
Total operating expenses	550,326	434,010
Income from operations	112,028	102,676
OTHER EXPENSE (INCOME):		
Interest expense	47,425	48,976
Accretion of put option in majority-owned subsidiary	303	238
Interest and other income	(9,888)	(7,157)
Impairment loss on investment securities	8,001	
Total other expense	45,841	42,057
Income before provision for income taxes	66,187	60,619
Provision for income taxes	(26,668)	(24,267)
Net income	39,519	36,352
Accrued dividends on Series D Preferred Stock		(5,180)
Accrued dividends on Series E Preferred Stock		(740)
Accretion on Series D Preferred Stock		(118)
Accretion on Series E Preferred Stock		(85)
Net income applicable to Common Stock	$ 39,519	$ 30,229

Net income	$	39,519	$	36,352
Other comprehensive income:				
Unrealized gain on available-for-sale securities, net of tax				595
Unrealized loss on cash flow hedging derivative, net of tax		(15,626)		(1,769)
Reclassification adjustment for losses (gains) included in net income, net of tax		1,717		(1,042)
Comprehensive income	$	25,610	$	34,136
Net income per common share:				
Basic	$	0.11	$	0.11
Diluted	$	0.11	$	0.11
Weighted average shares:				
Basic		348,164,091		157,035,119
Diluted		354,568,227		163,447,880

The accompanying notes are an integral part of these condensed consolidated financial statements.

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MetroPCS Communications, Inc. and Subsidiaries
Condensed Consolidated Statements of Cash Flows
(in thousands)
(Unaudited)

	For the three months ended March 31, 2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 39,519	$ 36,352
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	57,300	39,380
Provision for uncollectible accounts receivable	44	127
Deferred rent expense	5,997	2,039
Cost of abandoned cell sites	1,668	1,796
Stock-based compensation expense	8,465	4,211
Non-cash interest expense	600	1,096
Loss on disposal of assets	21	3,050
Gain on sale of investments		(959)
Accretion of asset retirement obligation	515	282
Accretion of put option in majority-owned subsidiary	303	238
Impairment loss on investments securities	8,001	
Deferred income taxes	25,548	23,611
Changes in assets and liabilities:		
Inventories	43,663	(13,976)
Accounts receivable	(1,062)	2,482
Prepaid charges	(18,038)	(5,431)
Deferred charges	(2,696)	(1,445)
Other assets	2,206	(5,417)
Accounts payable and accrued expenses	(77,694)	8,119
Deferred revenue	12,344	15,141
Other liabilities	745	876
Net cash provided by operating activities	107,449	111,572
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(183,614)	(156,235)
Change in prepaid purchases of property and equipment	27,172	(1,654)
Cash used in acquisitions	(18,600)	
Purchase of investments		(321,322)
Proceeds from sale of investments		404,551
Change in restricted cash and investments		556
Deposit to FCC for licenses	(153,682)	
Microwave relocation costs	(635)	
Net cash used in investing activities	(329,359)	(74,104)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Change in book overdraft	65,734	38,281

Debt issuance costs		(740)
Cost of raising capital		(1,288)
Repayment of debt	(4,000)	(4,000)
Proceeds from exercise of stock options	697	99
Net cash provided by financing activities	62,431	32,352
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(159,479)	69,820
CASH AND CASH EQUIVALENTS, beginning of period	1,470,208	161,498
CASH AND CASH EQUIVALENTS, end of period	$ 1,310,729	$ 231,318

The accompanying notes are an integral part of these condensed consolidated financial statements.

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MetroPCS Communications, Inc. and Subsidiaries
Notes to Condensed Consolidated Interim Financial Statements
(Unaudited)

1. Basis of Presentation:

The accompanying unaudited condensed consolidated interim financial statements include the balances and results of operations of MetroPCS Communications, Inc. (MetroPCS) and its consolidated subsidiaries (collectively, the Company). MetroPCS indirectly owns, through its wholly-owned subsidiaries, 85% of the limited liability company member interest in Royal Street Communications, LLC (Royal Street Communications). The consolidated financial statements include the balances and results of operations of MetroPCS and its wholly-owned subsidiaries as well as the balances and results of operations of Royal Street Communications and its wholly-owned subsidiaries (collectively Royal Street). The Company consolidates its interest in Royal Street in accordance with Financial Accounting Standards Board (FASB) Interpretation No. 46-R, *Consolidation of Variable Interest Entities,* because Royal Street is a variable interest entity and the Company will absorb all of Royal Street s expected losses. All intercompany accounts and transactions between the Company and Royal Street have been eliminated in the consolidated financial statements. The redeemable minority interest in Royal Street is included in long-term liabilities. The condensed consolidated balance sheets as of March 31, 2008 and December 31, 2007, the condensed consolidated statements of income and comprehensive income and cash flows for the periods ended March 31, 2008 and 2007, and the related footnotes are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP).

The unaudited condensed consolidated financial statements included herein reflect all adjustments (consisting of normal, recurring adjustments) which are, in the opinion of management, necessary to state fairly the results for the interim periods presented. The results of operations for the interim periods presented are not necessarily indicative of the operating results to be expected for any subsequent interim period or for the fiscal year.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Federal Universal Service Fund (FUSF) and E-911 fees are assessed by various governmental authorities in connection with the services that the Company provides to its customers. The Company reports these fees on a gross basis in service revenues and cost of service on the accompanying statements of income and comprehensive income. For the three months ended March 31, 2008 and 2007, the Company recorded approximately $25.9 million and $19.9 million, respectively, of FUSF and E-911 fees. Sales, use and excise taxes are reported on a net basis in selling, general and administrative expenses on the accompanying statements of income and comprehensive income.

On March 14, 2007, the Company s Board of Directors approved a 3 for 1 stock split of the Company s common stock effected by means of a stock dividend of two shares of common stock for each share of common stock issued and outstanding on that date. All share, per share and conversion amounts relating to common stock and stock options included in the accompanying consolidated financial statements have been retroactively adjusted to reflect the stock split.

On April 24, 2007, MetroPCS consummated its initial public offering (the Offering) of 57,500,000 shares of common stock priced at $23.00 per share (less underwriting discounts and commissions). MetroPCS offered 37,500,000 shares of common stock and certain of MetroPCS existing stockholders offered 20,000,000 shares of common stock in the Offering, which included 7,500,000 shares sold by MetroPCS existing stockholders pursuant to the underwriters exercise of their over-allotment option. Concurrent with the Offering, all outstanding shares of preferred stock, including accrued but unpaid dividends, were converted into 150,962,644 shares of common stock. The shares began trading on April 19, 2007 on the New York Stock Exchange under the symbol PCS .

2. Acquisitions:

On December 21, 2007, the Company executed an agreement with PTA Communications, Inc. (PTA) to purchase 10 MHz of PCS spectrum from PTA for the basic trading area of Jacksonville, Florida. The Company also entered into agreements with NTCH, Inc. (dba Cleartalk PCS) and PTA-FLA, Inc. for the purchase of certain of their assets used in providing PCS wireless telecommunications services in the Jacksonville market. Consummation

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(Unaudited)

of both acquisitions is conditioned on customary closing conditions and the license purchase agreement also requires approval by the Federal Communications Commission (FCC). On January 17, 2008, the Company closed on the acquisition of certain assets used in providing PCS wireless services. The Company paid a total of $18.6 million in cash for these assets, exclusive of transaction costs. On February 27, 2008, the FCC issued a public notice announcing the approval of the acquisition of the 10 MHz of spectrum. The Company plans to consummate the acquisition of the 10 MHz license in the second quarter of 2008.

3. Share-Based Payments:

In accordance with Statement of Financial Accounting Standards (SFAS) No. 123(R), *Share-Based Payment*, (SFAS No. 123(R)), the Company has recognized stock-based compensation expense in an amount equal to the fair value of share-based payments, which includes stock options granted to employees. The Company records stock-based compensation expense in cost of service and selling, general and administrative expenses. Stock-based compensation expense recognized under SFAS No. 123(R) was $8.5 million and $4.2 million for the three months ended March 31, 2008 and 2007, respectively. Cost of service for the three months ended March 31, 2008 and 2007 includes $0.5 million and $0.2 million, respectively, of stock-based compensation. For the three months ended March 31, 2008 and 2007, selling, general and administrative expenses include $8.0 million and $4.0 million, respectively, of stock-based compensation.

On March 7, 2008, the Company granted stock options to purchase an aggregate of 5,393,065 shares of the Company s common stock to certain employees and non-employee directors. The exercise price for the stock option grants is $16.20, which was equal to the Company s common stock closing price on the New York Stock Exchange on the grant date. The stock options granted generally vest on a four-year vesting schedule with 25% vesting on the first anniversary date of the award and the remainder pro-rata on a monthly basis thereafter. The grant date fair value of these stock options approximated $36.9 million.

4. Investments:

The Company has historically invested its substantial cash balances in, among other things, securities issued and fully guaranteed by the United States or the states, highly rated commercial paper and auction rate securities, money market funds meeting certain criteria, and demand deposits. These investments are subject to credit, liquidity, market and interest rate risk. At March 31, 2008, the Company had invested substantially all of its cash and cash equivalents in money market funds consisting of treasury securities.

The Company holds investments of $133.9 million in certain auction rate securities some of which are secured by collateralized debt obligations with a portion of the underlying collateral being mortgage securities or related to mortgage securities. Consistent with the Company s investment policy guidelines, the auction rate securities investments held by the Company all had AAA/Aaa credit ratings at the time of purchase. With the liquidity issues experienced in global credit and capital markets, the auction rate securities held by the Company at March 31, 2008 have experienced continued failed auctions as the amount of securities submitted for sale in the auctions has exceeded the amount of purchase orders. In addition, three auction rate securities held by the Company have been placed on credit watch and three auction rate securities have been downgraded from AAA/Aaa. As of May 9, 2008, the remaining auction rate securities held by the Company still retain a AAA/Aaa rating as reported by Standard and Poors and Moody s Investors Service.

The estimated market value of the Company s auction rate security holdings at March 31, 2008 was approximately $28.0 million, which reflects a $105.9 million adjustment to the principal value of $133.9 million. The estimated market value at December 31, 2007 was approximately $36.1 million, which reflected a $97.8 million adjustment to the principal value at that date. Although the auction rate securities continue to pay interest according to their stated terms, based on statements received from the Company s broker and an analysis of other-than- temporary impairment factors, the Company recorded an impairment charge of $8.0 million during the three months ended March 31, 2008, reflecting an additional portion of auction rate security holdings that the Company has concluded have an other-than-temporary decline in value.

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Historically, given the liquidity created by auctions, the Company s auction rate securities were presented as current assets under short-term investments on the Company s balance sheet. Given the failed auctions, the Company s auction rate securities are illiquid until there is a successful auction for them. Accordingly, the entire amount of such remaining auction rate securities has been reclassified from current to non-current assets and is presented in long-term investments on the accompanying balance sheets as of March 31, 2008 and December 31, 2007. If uncertainties in the credit and capital markets continue or these markets deteriorate further, the Company may incur additional impairments to its auction rate securities.

5. Property and Equipment:

Property and equipment, net, consisted of the following (in thousands):

	March 31, 2008	December 31, 2007
Construction-in-progress	$ 447,369	$ 393,282
Network infrastructure	2,036,941	1,901,119
Office equipment	47,599	44,059
Leasehold improvements	37,292	33,410
Furniture and fixtures	9,386	7,833
Vehicles	229	207
	2,578,816	2,379,910
Accumulated depreciation	(540,622)	(488,499)
Property and equipment, net	$ 2,038,194	$ 1,891,411

6. FCC Licenses and Microwave Relocation Costs:

The Company operates broadband PCS networks under licenses granted by the FCC for a particular geographic area on spectrum allocated by the FCC for broadband PCS services. In addition, in November 2006, the Company acquired a number of advanced wireless services (AWS) licenses which can be used to provide services comparable to the PCS services provided by the Company, and other advanced wireless services. The PCS and AWS licenses include the obligation to relocate existing fixed microwave users of the Company s licensed spectrum if the use of the Company s spectrum would interfere with their systems and/or reimburse other carriers (according to FCC rules) that relocated prior users if the relocation benefits the Company s system. Accordingly, the Company incurred costs related to microwave relocation in constructing its PCS and AWS networks. The PCS and AWS licenses and microwave relocation costs are recorded at cost. Although PCS and AWS licenses are issued with a stated term, ten years in the case of the PCS licenses and fifteen years in the case of the AWS licenses, the renewal of PCS and AWS licenses is generally a routine matter without substantial cost and the Company has determined that no legal, regulatory, contractual, competitive, economic, or other factors currently exist that limit the useful life of its PCS and AWS licenses. The carrying value of FCC licenses and microwave relocation costs was approximately $2.1 billion as of March 31, 2008.

The Company s primary indefinite-lived intangible assets are its FCC licenses. Based on the requirements of SFAS No. 142, *Goodwill and Other Intangible Assets,* (SFAS No. 142) the Company tests investments in its FCC licenses for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value of its FCC licenses might be impaired. The Company performs its annual FCC license impairment test as of each September 30th. The impairment test consists of a comparison of the estimated fair value with the carrying value. The Company estimates the fair value of its FCC licenses using a discounted cash flow model. Cash flow projections and assumptions, although subject to a degree of uncertainty, are based on a combination of the Company s historical performance and trends, its business plans and management s estimate of future performance, giving consideration to existing and anticipated competitive economic conditions. Other assumptions include the Company s weighted average cost of capital and long-term rate of growth for its business. The Company believes that its estimates are consistent with assumptions that marketplace participants would use to estimate fair value. The Company corroborates its determination of fair value of the FCC licenses, using the discounted cash flow approach described above, with other market-based valuation metrics. Furthermore, the Company segregates its FCC licenses by regional clusters for the purpose of performing the impairment test because each geographical region is unique. An impairment loss would be recorded as a reduction in the carrying value of the related indefinite-lived intangible asset and charged to results of operations.

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The Company completed its impairment tests during the third quarter of 2007 and no impairment has been recognized through March 31, 2008.

Auction 73

MetroPCS 700 MHz, LLC, a wholly-owned subsidiary of the Company, submitted an upfront payment on January 15, 2008 to the FCC in the amount of $153.7 million to qualify to participate in the auction of 700MHz spectrum in Auction 73. Auction 73 concluded on March 18, 2008 and the FCC announced that the Company was the high bidder, with a winning bid of approximately $313.3 million, on a 10 MHz license covering a total population of approximately 8.3 million for the Boston economic area, which is encompassed within the geographic boundaries of the Company s existing AWS license for the Boston metropolitan area. On April 2, 2008, the Company filed its post-auction application with the FCC to secure a final grant of the 700 MHz license, and on April 16, 2008, the Company paid the FCC the remaining $159.6 million for the 700 MHz license. On April 22, 2008, the FCC released a public notice accepting the Company s application for filing.

7. Accounts Payable and Accrued Expenses:

Accounts payable and accrued expenses consisted of the following (in thousands):

	March 31, 2008	December 31, 2007
Accounts payable	$ 63,993	$ 131,177
Book overdraft	91,133	25,399
Accrued accounts payable	138,108	155,733
Accrued liabilities	9,675	16,285
Payroll and employee benefits	13,438	29,380
Accrued interest	66,006	33,892
Taxes, other than income	49,127	41,044
Income taxes	6,873	6,539
Accounts payable and accrued expenses	$ 438,353	$ 439,449

8. Long-Term Debt:

Long-term debt consisted of the following (in thousands):

	March 31, 2008	December 31, 2007
$9^{1}/4$% Senior Notes	$ 1,400,000	$ 1,400,000
Senior Secured Credit Facility	1,576,000	1,580,000
Total long-term debt	2,976,000	2,980,000
Add: unamortized premium on debt	21,572	22,177
Total debt	2,997,572	3,002,177
Less: current maturities	(16,000)	(16,000)

Total long-term debt	$ 2,981,572	$ 2,986,177

9¼% Senior Notes

On November 3, 2006, MetroPCS Wireless, Inc, a wholly-owned indirect subsidiary of MetroPCS (Wireless), completed the sale of $1.0 billion of principal amount of 9¼% Senior Notes due 2014, (the Initial Notes). The net proceeds of the sale of the Initial Notes were approximately $978.0 million after underwriter fees and other debt issuance costs of $22.0 million. On June 6, 2007, Wireless completed the sale of an additional $400.0 million of 9¼% Senior Notes (the Additional Notes and together with the Initial Notes, the 9¼% Senior Notes) under the existing indenture at a price equal to 105.875% of the principal amount of such Additional Notes.

The 9¼% Senior Notes are unsecured obligations and are guaranteed by MetroPCS, MetroPCS, Inc., and all of Wireless direct and indirect wholly-owned subsidiaries, but are not guaranteed by Royal Street. Interest is payable

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MetroPCS Communications, Inc. and Subsidiaries
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(Unaudited)

on the 9 1/4% Senior Notes on May 1 and November 1 of each year. Wireless may, at its option, redeem some or all of the 9 1/4% Senior Notes at any time on or after November 1, 2010 for the redemption prices set forth in the indenture governing the 9 1/4% Senior Notes. In addition, Wireless may also redeem up to 35% of the aggregate principal amount of the 9 1/4% Senior Notes with the net cash proceeds of certain sales of equity securities.

Senior Secured Credit Facility

On November 3, 2006, Wireless entered into a secured credit facility, pursuant to which Wireless may borrow up to $1.7 billion, as amended, (the Senior Secured Credit Facility). The Senior Secured Credit Facility consists of a $1.6 billion term loan facility and a $100.0 million revolving credit facility. On November 3, 2006, Wireless borrowed $1.6 billion under the Senior Secured Credit Facility. The term loan facility is repayable in quarterly installments in annual aggregate amounts equal to 1% of the initial aggregate principal amount of $1.6 billion.

The facilities under the Senior Secured Credit Facility are guaranteed by MetroPCS, MetroPCS, Inc. and each of Wireless direct and indirect present and future wholly-owned domestic subsidiaries. The facilities are not guaranteed by Royal Street, but Wireless pledged the promissory note that Royal Street has given it in connection with amounts borrowed by Royal Street from Wireless and the limited liability company member interest held in Royal Street Communications. The Senior Secured Credit Facility contains customary events of default, including cross defaults. The obligations are also secured by the capital stock of Wireless as well as substantially all of Wireless present and future assets and the capital stock and substantially all of the assets of each of its direct and indirect present and future wholly-owned subsidiaries (except as prohibited by law and certain permitted exceptions), but excludes Royal Street.

The interest rate on the outstanding debt under the Senior Secured Credit Facility is variable. The rate as of March 31, 2008 was 6.468%. On November 21, 2006, Wireless entered into a three-year interest rate protection agreement to manage the Company s interest rate risk exposure and fulfill a requirement of the Senior Secured Credit Facility. The agreement covers a notional amount of $1.0 billion and effectively converts this portion of Wireless variable rate debt to fixed-rate debt. On February 20, 2007, Wireless entered into an amendment to the Senior Secured Credit Facility. Under the amendment, the margin on the base rate used to determine the Senior Secured Credit Facility interest rate was reduced to 2.25% from 2.50%.

9. Fair Value Measurements:

In the first quarter of 2008, the Company adopted the provisions of SFAS No. 157, *Fair Value Measurements*, (SFAS No. 157) for financial assets and liabilities. SFAS No. 157 became effective for financial assets and liabilities on January 1, 2008. SFAS No. 157 defines fair value, thereby eliminating inconsistencies in guidance found in various prior accounting pronouncements, and increases disclosures surrounding fair value calculations.

SFAS No. 157 establishes a three-tiered fair value hierarchy that prioritizes inputs to valuation techniques used in fair value calculations. The three levels of inputs are defined as follows:

Level 1 **-** Unadjusted quoted market prices for identical assets or liabilities in active markets that the Company has the ability to access.

Level 2 **-** Quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; or valuations based on models where the significant inputs are observable (e.g., interest rates, yield curves, prepayment speeds, default rates, loss severities, etc.) or can be corroborated by observable market data.

Level 3 **-** Valuations based on models where significant inputs are not observable. The unobservable inputs reflect the Company s own assumptions about the assumptions that market participants would use.

SFAS No. 157 requires the Company to maximize the use of observable inputs and minimize the use of unobservable inputs. If a financial instrument uses inputs that fall in different levels of the hierarchy, the instrument

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will be categorized based upon the lowest level of input that is significant to the fair value calculation. The Company s financial assets and liabilities measured at fair value on a recurring basis include short-term investments securities and derivative financial instruments.

Included in the Company s long-term investments securities are certain auction rate securities some of which are secured by collateralized debt obligations with a portion of the underlying collateral being mortgage securities or related to mortgage securities. Due to the lack of availability of observable market quotes on the Company s investment portfolio of auction rate securities, the fair value was estimated based on the Company s broker-dealer valuation models and an internal analysis by management of other-than-temporary impairment factors. The broker-dealer models considered credit default risks, the liquidity of the underlying security and overall capital market liquidity. Management also looked to other marketplace transactions, and information received from other third party brokers in order to assess whether the fair value based on the broker-dealer valuation models was reasonable. The valuation of the Company s investment portfolio is subject to uncertainties that are difficult to predict. Factors that may impact the Company s valuation include changes to credit ratings of the securities as well as the underlying assets supporting those securities, rates of default of the underlying assets, underlying collateral values, discount rates, counterparty risk and ongoing strength and quality of market credit and liquidity. Significant inputs to the investments valuation are unobservable in the active markets and are classified as Level 3 in the hierarchy.

Included in the Company s derivative financial instruments are interest rate swaps. Derivative financial instruments are valued in the market using discounted cash flow techniques. These techniques incorporate Level 1 and Level 2 inputs such as interest rates. These market inputs are utilized in the discounted cash flow calculation considering the instrument s term, notional amount, discount rate and credit risk. Significant inputs to the derivative valuation for interest rate swaps are observable in the active markets and are classified as Level 2 in the hierarchy.

The following table summarizes assets and liabilities measured at fair value on a recurring basis at March 31, 2008, as required by SFAS No. 157 (in thousands):

	Fair Value Measurements			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets				
Long-term investments	$	$	$ 28,049	$ 28,049
Total assets at fair value	$	$	$ 28,049	$ 28,049
Liabilities				