

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

- Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

for the quarterly period ended June 30, 2007

- 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 000-21091

FIBERTOWER CORPORATION

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction
of incorporation or organization)

52-1869023
(I.R.S. Employer
Identification No.)

185 Berry Street
Suite 4800
San Francisco, CA 94107
(Address of principal executive offices)

(415) 659-3500
(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 No .

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Securities Exchange Act of 1934): Yes No .

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court: Yes No .

Indicate the number of shares outstanding of each of the registrant's classes of common stock as of the latest practicable date: The registrant had 146,005,270 shares of its common stock outstanding as of July 31, 2007.

FIBERTOWER CORPORATION

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ITEM 1. FINANCIAL STATEMENTS

FIBERTOWER CORPORATION
Condensed Consolidated Balance Sheets
(unaudited)
(All amounts are in thousands, except par value)

	<u>June 30, 2007</u>	<u>December 31, 2006</u>
Assets:		
Current assets:		
Cash and cash equivalents	\$ 273,771	\$ 345,174
Certificates of deposit	5,000	5,000
Short term investments	19,821	15,253
Restricted cash and investments, current portion	35,611	35,616
Accounts receivable, net of allowances of \$31 at June 30, 2007 and \$161 at December 31, 2006	4,085	2,904
Prepaid expenses and other current assets	2,324	2,624
Total current assets	340,612	406,571
Restricted cash and investments	18,165	34,906
Property and equipment, net	211,276	171,612
FCC licenses	342,000	342,000
Goodwill	243,388	243,388
Debt issuance costs, net	12,957	14,009
Intangible and other long-term assets, net	3,837	3,992
Total assets	<u>\$ 1,172,235</u>	<u>\$ 1,216,478</u>
Liabilities and Stockholders' Equity:		
Current liabilities:		
Accounts payable	\$ 13,032	\$ 18,039
Accrued compensation and related benefits	3,002	4,246
Accrued interest payable	5,245	5,333
Other accrued liabilities	4,777	3,528
Total current liabilities	26,056	31,146
Other liabilities	6,492	4,787
Convertible senior secured notes	409,345	403,759
Deferred tax liability	102,964	102,964
Total liabilities	544,857	542,656
Commitments and contingencies		
Stockholders' equity:		
Common stock, \$0.001 par value; 400,000 shares authorized, 146,051 and 144,971 shares issued and outstanding at June 30, 2007 and December 31, 2006, respectively	146	145
Additional paid-in capital	782,071	776,077
Accumulated deficit	(154,839)	(102,400)
Total stockholders' equity	627,378	673,822
Total liabilities and stockholders' equity	<u>\$ 1,172,235</u>	<u>\$ 1,216,478</u>

See accompanying notes.

FIBERTOWER CORPORATION
Condensed Consolidated Statements of Operations
(unaudited)
(All amounts are in thousands, except per share data)

	<u>Three Months Ended</u>		<u>Six Months Ended</u>	
	<u>June 30,</u>		<u>June 30,</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Service revenues	\$ 6,191	\$ 3,092	\$ 11,611	\$ 5,616
Operating expenses:				
Cost of service revenues (excluding depreciation and amortization)	14,057	8,588	25,480	14,978
Sales and marketing	1,908	1,626	3,930	2,514
General and administrative	5,669	2,399	12,866	4,166
Depreciation and amortization	4,469	1,290	8,375	2,318
Total operating expenses	<u>26,103</u>	<u>13,903</u>	<u>50,651</u>	<u>23,976</u>
Loss from operations	<u>(19,912)</u>	<u>(10,811)</u>	<u>(39,040)</u>	<u>(18,360)</u>
Other income (expense):				
Interest income	4,691	851	10,049	1,971
Interest expense	(11,605)	(26)	(23,794)	(54)
Miscellaneous income, net	225	(25)	346	(45)
Total other income (expense), net	<u>(6,689)</u>	<u>800</u>	<u>(13,399)</u>	<u>1,872</u>
Net loss	<u>\$(26,601)</u>	<u>\$(10,011)</u>	<u>\$(52,439)</u>	<u>\$(16,488)</u>
Basic and diluted net loss per share	<u>\$ (0.19)</u>	<u>\$ (1.84)</u>	<u>\$ (0.37)</u>	<u>\$ (3.12)</u>
Weighted average number of shares used in per share amounts:				
Basic and diluted	<u>142,808</u>	<u>5,454</u>	<u>142,534</u>	<u>5,292</u>

See accompanying notes.

FIBERTOWER CORPORATION
Condensed Consolidated Statements of Cash Flows
(unaudited)
(All amounts are in thousands)

	<u>Six Months Ended June 30,</u>	
	<u>2007</u>	<u>2006</u>
Operating activities		
Net loss	\$ (52,439)	\$ (16,488)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	8,375	2,318
Decline in value of embedded derivative	(538)	—
Accretion of convertible notes	6,124	—
Accretion of investments in debt securities	(1,059)	—
Amortization of debt issuance costs	1,052	—
Stock-based compensation	4,334	1,148
Loss on disposal of equipment	384	102
Net changes in operating assets and liabilities:		
Accounts receivable, net	(1,181)	(803)
Prepaid expenses and other assets	304	90
Accounts payable	(5,007)	(4,898)
Accrued compensation and related benefits	(1,244)	1,468
Accrued interest payable	(88)	(83)
Other accrued liabilities	2,802	1,714
Net cash used in operating activities	<u>(38,181)</u>	<u>(15,432)</u>
Investing activities		
Merger-related costs	—	(489)
Purchases of short-term investments	(76,945)	—
Maturities of short-term investments	72,405	—
Restricted cash and investments	17,776	—
Purchase of property and equipment	(47,919)	(54,145)
Net cash used in investing activities	<u>(34,683)</u>	<u>(54,634)</u>
Financing activities		
Proceeds from exercise of stock options	1,461	126
Cash provided by financing activities	<u>1,461</u>	<u>126</u>
Net decrease in cash and cash equivalents	(71,403)	(69,940)
Cash and cash equivalents at beginning of period	<u>345,174</u>	<u>112,936</u>
Cash and cash equivalents at end of period	<u>\$ 273,771</u>	<u>\$ 42,996</u>

Supplemental Disclosures

Cash paid for interest	\$ 18,723	\$ 48
Accrual of merger-related costs	<u>—</u>	<u>\$ 672</u>

See accompanying notes.

FIBERTOWER CORPORATION
Notes to Condensed Consolidated Financial Statements
(All amounts are in thousands, except per share data)
(Unaudited)

Note 1—Organization and Business

Organization and operations — FiberTower Corporation (formerly known as First Avenue Networks, Inc. (“First Avenue”) and collectively with its subsidiaries, the “Company”) was incorporated in 1993 in the State of Delaware to build and operate a shared high-capacity backhaul network for wireless operators and service providers in the United States.

The Company is a leading provider of facilities-based backhaul services to wireless carriers. Backhaul is the transport of voice and data traffic from a wireless carrier’s mobile base station (cell site) to its mobile switching station, where the traffic is then switched onto the fixed telecommunications network. The Company utilizes wireless spectrum assets to provide backhaul services through a hybrid radio/fiber network architecture. The Company’s services allow wireless carriers to optimize their networks enabling significant improvements in their availability, reliability, scalability and cost, while providing a long-term solution for the increasing demand for backhaul capacity. As of June 30, 2007, the Company had master service agreements with six of the eight largest U.S. wireless carriers. Through these and other customer agreements, the Company provides services to 1,848 billing sites in 12 markets throughout the U.S. as of June 30, 2007.

The Company has incurred losses and negative cash flows from operating and investing activities since its inception, and it had an accumulated deficit of \$154,839 and \$102,400 as of June 30, 2007 and December 31, 2006, respectively. Through June 30, 2007, the Company has relied primarily on equity and debt financings to fund its operating and investing activities. Management expects operating losses and negative cash flows to continue for the foreseeable future. Failure to generate sufficient revenue could have a material adverse effect on the Company’s results of operations, financial condition and cash flows. The recoverability of assets is highly dependent on the ability of management to execute its business plan.

Merger transaction — On August 29, 2006, FiberTower Network Services Corp. (formerly known as “FiberTower Corporation” and referred to hereinafter as “Old FiberTower”) and First Avenue completed a merger pursuant to a merger agreement (the “Merger Agreement”) dated May 14, 2006. Under the terms of the Merger Agreement, all of the outstanding shares of Old FiberTower’s Series A Convertible Preferred Stock (“Series A”) were converted to shares of Old FiberTower’s common stock immediately prior to the completion of the merger. Accordingly, First Avenue issued 73,885,330 shares of common stock in exchange for all of the issued and outstanding common shares of Old FiberTower. In addition, First Avenue issued options for 4,206,682 shares of its common stock in exchange for all of the outstanding stock options of Old FiberTower. However, since this transaction has been accounted for as a reverse acquisition of First Avenue by Old FiberTower, the financial statements reflect the transaction as if Old FiberTower had issued consideration to First Avenue shareholders.

Immediately following the completion of the merger, the stockholders and option holders of Old FiberTower owned approximately 51%, on a fully diluted basis, of the outstanding shares of First Avenue. In addition, under the terms of the Merger Agreement, the Chief Executive Officer (“CEO”) of First Avenue became the CEO of the combined company. Old FiberTower designated five members and First Avenue designated three members to the Board of Directors of the combined company. Each standing committee of the Board of Directors consists of one member designated by First Avenue and one or two members designated by Old FiberTower. First Avenue was renamed “FiberTower Corporation” following the completion of the merger.

The merger of First Avenue and Old FiberTower has been accounted for as a reverse acquisition of First Avenue by Old FiberTower under the purchase method of accounting because Old FiberTower's stockholders owned a majority of the shares, on a fully diluted basis, of the combined company following the merger.

In order to effect the merger described above, each share of Old FiberTower common stock was exchanged for .3040542 shares of the Company's common stock. Accordingly, the number of common and preferred shares, par values and per share information included herein has been retroactively restated to give effect to the merger.

The accompanying condensed consolidated financial statements reflect the operating results of Old FiberTower on a historical basis and the Company's operating results subsequent to the effective date of the merger, August 29, 2006. See Note 3 for additional information.

Note 2—Summary of Significant Accounting Policies

Basis of Presentation — The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the six month period ended June 30, 2007 are not necessarily indicative of the results that may be expected for the year ended December 31, 2007.

The Company reclassified its condensed consolidated statements of operations for the three and six months ended June 30, 2006, conforming it to the current year presentation, to properly reflect the allocation of certain information technology expenses from sales and marketing and general and administrative to cost of service revenues. This reclassification did not have a material effect on the condensed consolidated statements of operations.

The condensed consolidated balance sheet at December 31, 2006 has been derived from the audited consolidated financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

For further information, refer to the consolidated financial statements and footnotes thereto included in FiberTower's Annual Report on Form 10-K for the year ended December 31, 2006.

There have been no significant changes in our significant accounting policies as of June 30, 2007 as compared to the significant accounting policies described in FiberTower's Annual Report on Form 10-K for the year ended December 31, 2006, except for the adoption of Financial Accounting Standards Board ("FASB") Interpretation No. 48 ("FIN 48"), *Accounting for Uncertainty in Income Taxes-an Interpretation of FASB Statement 109*. FIN 48 prescribes a two-step process for the financial statement measurement and recognition of a tax position taken or expected to be taken in an income tax return. The first step involves the determination of whether it is more likely than not that a tax position will be sustained upon examination, based on the technical merits of the position. The second step requires that any tax position that meets the more-likely-than-not recognition threshold be measured and recognized in the financial statements at the largest amount of benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement. Issued in June 2006, FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company believes that it has appropriate support for the income tax positions taken and to be taken on its tax returns and that its accruals for tax liabilities are adequate for all open years based on an assessment of many factors including past experience and interpretations of tax law applied to the facts of each matter. The Company adopted the provisions of FIN 48 on January 1, 2007. The adoption of FIN 48 did not impact the consolidated financial condition, results of operations or cash flows of the Company.

Recent accounting pronouncements — In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*. SFAS No. 157 defines fair value, establishes a framework for measuring fair value

and expands disclosure of fair value measurements. SFAS No. 157 applies under other accounting pronouncements that require or permit fair value measurements and accordingly, does not require any new fair value measurements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. The Company is currently evaluating the potential impact of this pronouncement on its consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*. SFAS No. 159 permits entities to choose, at specified election dates, to measure eligible items at fair value (“fair value option”) and to report in earnings unrealized gains and losses on those items for which the fair value option has been elected. SFAS No. 159 also requires entities to present the fair values of these assets and liabilities on the face of the balance sheet. SFAS No. 159 is effective as of the beginning of an entity’s fiscal year commencing after November 15, 2007. The Company is currently evaluating the potential impact of this pronouncement on its consolidated financial statements.

Note 3—Merger with First Avenue

As stated in Note 1, Old FiberTower and First Avenue completed their merger on August 29, 2006. The merger of Old FiberTower and First Avenue has been accounted for as a reverse acquisition of First Avenue by Old FiberTower under the purchase method of accounting. The total purchase price for this merger was \$549,643.

The total purchase consideration was as follows (in thousands):

	Shares	
	Issued	Fair Value
Shares of First Avenue common stock	67,204	\$520,160
First Avenue stock options and warrants	6,282	27,501
Acquisition-related costs		1,917
Merger-related restructuring liability, net		65
Total purchase consideration		<u>\$549,643</u>

The purchase consideration was allocated to the assets acquired and liabilities assumed based on management’s analysis and estimates of their fair values, which were based partially on a valuation prepared by a third party with respect to certain of First Avenue’s tangible and intangible assets. The purchase consideration was allocated as follows:

	Amount
Cash and cash equivalents	\$ 38,650
Certificates of deposit	20,327
Property and equipment	7,710
FCC licenses	342,000
Goodwill	243,388
Customer relationship intangible	3,000
Deferred tax liability	(102,964)
Other assets and liabilities, net	(2,468)
Total	<u>\$549,643</u>

As part of the merger between Old FiberTower and First Avenue, FiberTower incurred severance and relocation expenses of \$65. These activities were part of a merger-related plan contemplated prior to closing, and have been incorporated into the purchase price pursuant to the guidance in EITF Issue No. 95-3, *Recognition of Liabilities in Connection with a Purchase Business Combination*.

Old FiberTower merged with First Avenue in order to gain access to First Avenue's Federal Communications Commission, or FCC, area-wide licenses. These licenses allow the Company to access lower cost technologies that will allow the Company to more effectively serve its customer base. We believe that the First Avenue assets combined with Old FiberTower's existing network will enable the Company to (i) increase customer penetration among the top wireless companies, (ii) lower operational risk associated with building networks, (iii) effectively deploy capital, and (iv) gain improved access to capital.

Pro Forma Financial Information — The following unaudited pro forma consolidated results of operations for the three and six months ended June 30, 2006 assume that the merger was completed as of January 1, 2006:

	Three Months Ended June 30, 2006	Six Months Ended June 30, 2006
Service revenues	\$ 3,598	\$ 6,499
Operating loss	\$ (17,660)	\$ (29,910)
Net loss	\$ (16,139)	\$ (26,627)
Basic and diluted loss per share	\$ (0.11)	\$ (0.19)
Weighted average shares outstanding	141,673	140,558

This pro forma information is presented for informational purposes only and is not necessarily indicative of the results of operations that would have been achieved had the merger occurred at the beginning of the period presented.

Note 4—Property and Equipment

Property and equipment consisted of the following:

	June 30, 2007	December 31, 2006
Network equipment	\$ 162,847	\$ 120,500
Internal-use computer software	2,416	2,096
Office equipment and other	2,864	2,832
	168,127	125,428
Less: accumulated depreciation and amortization	22,107	14,200
Property and equipment in-service, net	146,020	111,228
Construction-in-progress	65,256	60,384
Property and equipment, net	<u>\$ 211,276</u>	<u>\$ 171,612</u>

As of June 30, 2007 and December 31, 2006, network equipment included capitalized internal labor costs of \$14.6 million and \$11.4 million, respectively. As of June 30, 2007, network equipment and construction-in-progress included capitalized interest totaling \$2.0 million, which includes \$1.7 million in interest capitalized in the three months ended June 30, 2007. No interest was capitalized for the three and six months ended June 30, 2006 as interest costs subject to capitalization were immaterial in 2006. Assets classified as construction-in-progress are not being depreciated as they have not yet been placed in service.

Note 5—Convertible Senior Secured Notes

On November 9, 2006, the Company completed the sale of \$402,500 of 9.00% Convertible Senior Secured Notes (“Notes”) that mature on November 15, 2012. The Notes were sold to the initial purchasers in a private placement exempt from the registration requirements of the Securities Act of 1933, as amended. The Notes are fully guaranteed, jointly and severally (“Guarantees”), by the Company and each of its subsidiaries (“Guarantors”).

The Notes bear interest at a coupon rate of 9% per annum, payable semi-annually in arrears in cash on May 15 and November 15 each year. As required by the indenture governing the Notes, the Company used \$68.5 million of the net proceeds to acquire U. S. Treasury securities to provide for the payment, in full, of the first four semi-annual interest payments. These securities may only be used to pay the interest or other payments required by the indenture and are reflected as restricted investments in the condensed consolidated balance sheet. On May 15, 2007, the Company made its first interest payment of \$18.7 million.

Subject to certain conditions, commencing May 15, 2009, the Company has the option of making any or all of the four semi-annual interest payments due in 2009 and 2010 with additional notes in lieu of cash. Such additional notes would bear interest at an annual rate of 11%.

If not redeemed or converted prior to maturity, the Company will be required to repay the Notes for 125.411% of their initial principal amount, or \$504,779. The Company is accreting the principal premium ratably over the six year period until the Notes mature and is recognizing such accretion as additional interest expense. The effect of this accretion is to increase the effective yield to the holders to 12% per annum based on the par value of the Notes.

The Notes and Guarantees are secured by a first priority pledge of substantially all of the assets of the Company and its subsidiaries and by a first priority pledge of the stock of all of its subsidiaries, subject, in each case, to a prior lien to secure a working capital facility, if any, of up to \$50 million. The Notes rank senior to all of the Company's and the Guarantors' existing and future subordinated indebtedness.

The Notes are not redeemable by the Company before November 15, 2010. If the Company's common stock exceeds specified trading values, the Company may redeem any of the Notes, in whole or in part at any time on or after November 15, 2010 at 100% of the aggregate accreted principal amount, together with accrued and unpaid interest and liquidated damages, if any.

The Notes may be converted into the Company's common shares at an effective conversion price of approximately \$8.29 per share which is subject to adjustment under certain circumstances. Holders who convert their Notes prior to November 15, 2009 or convert their Notes prior to November 15, 2010 in connection with certain designated events related to consolidations and mergers will receive a make-whole premium.

The Notes contain certain anti-dilution provisions that will cause the conversion price of the Notes to be reduced (i) upon the Company issuing or selling common stock or other securities convertible into common stock with aggregate proceeds of \$25,000 or more prior to November 15, 2008; and (ii) if the Company has not consummated common stock issuances or sales for aggregate proceeds of at least \$50,000 by November 15, 2008.

A majority of the Company's shareholders executed written consents approving the issuance of shares of common stock in connection with the possible conversion of the convertible notes. The number of common shares that could be issued would increase if the anti-dilution provisions of the Notes are triggered before conversion. This increase is capped at a 33% increase in the total number of shares.

The Notes contain covenants, including, but not limited to, restrictions on the Company's future indebtedness and the payment of dividends. As of June 30, 2007, the Company is in compliance with all of the covenants.

If certain designated events occur prior to maturity, the holders may require the Company to repurchase all or part of their Notes for cash at a repurchase price equal to 101% of their aggregate accreted principal amount, plus accrued and unpaid interest and liquidated damages, if any.

The Company and the Guarantors filed a shelf registration statement with the Securities and Exchange Commission ("SEC") on February 5, 2007 and an amendment to this shelf registration statement on April 24, 2007, covering the resale of the Notes, Guarantees and the shares of common stock issuable upon conversion of the Notes. The shelf registration statement was declared effective on April 26, 2007. The Company and the Guarantors will be required to pay liquidated damages if they fail to keep the shelf registration statement effective during specified time periods.

The Company concluded that the embedded feature related to the make-whole premium, designated event make-whole premium and holder put option upon the occurrence of certain designated events, qualify as derivatives and should be bundled as a compound embedded derivative (“Derivative”) under Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities*.

The fair value of the Derivative as of June 30, 2007 was \$96. The change in fair value of the Derivative from December 31, 2006 through June 30, 2007 totaled \$538 and has been recorded as miscellaneous income, net in the condensed consolidated statements of operations.

The Company will monitor the fair value of the Derivative each reporting period and record changes in fair value through charges to other income (expense) with an offsetting adjustment to the carrying value of the Notes on the balance sheet. The value of the Derivative will fluctuate based on changes in several factors including the trading price of the Company's common stock, passage of time and other events described in the Notes. These value changes could be significant.

The proceeds from issuance of the Notes were allocated between the Notes and make-whole premium Derivative as follows:

	<u>November 9, 2006</u>	<u>December 31, 2006</u>	<u>June 30, 2007</u>
Convertible senior secured notes	\$ 401,383	\$ 401,383	\$ 401,383
Accretion	—	1,742	7,866
Derivative	1,117	634	96
Total balance of Notes	<u>\$ 402,500</u>	<u>\$ 403,759</u>	<u>\$ 409,345</u>

The aggregate fair value of the Notes, which was determined based on quoted market values, is approximately \$446,775 as of June 30, 2007, as compared to the aggregate carrying value of the Notes at such date of \$409,345. Debt issuance costs incurred in connection with the sale of the Notes total \$14,309 and are being amortized as additional interest expense over the six-year term of the Notes using the effective interest method. Accumulated amortization totaled \$1,352 at June 30, 2007 and \$300 at December 31, 2006.

Note 6—Stockholders' Equity and Stock-Based Compensation

Old FiberTower Stock Plan — In May 2001, Old FiberTower adopted a stock option plan (the "Old FiberTower Stock Plan") pursuant to which the Board of Directors was authorized to grant options to purchase common stock, or issue shares of common stock, to employees, officers, directors, advisors or consultants of Old FiberTower. Incentive stock options ("ISOs") and nonqualified stock options ("NSOs") were granted with an exercise price equal to the estimated fair value of the common stock at the date of grant. All options issued under the Old FiberTower Stock Plan have a ten-year term, become fully exercisable upon vesting, and generally vest over one to four years.

FiberTower Corporation Stock Incentive Plan (formerly First Avenue Stock Incentive Plan) — As a result of the merger discussed in Notes 1 and 3, Old FiberTower, as the acquirer of First Avenue, assumed options for the purchase of 4.2 million common shares that had been granted by First Avenue under its Stock Incentive Plan (the "Stock Incentive Plan") prior to the merger.

First Avenue amended the Stock Incentive Plan, effective as of August 29, 2006 as follows: (1) provided for the issuance of restricted shares as well as ISOs and NSOs; (2) increased the number of shares reserved for issuance under the plan from 7.6 million shares to 23.3 million shares; (3) provided for annual awards of restricted shares with an aggregate value of \$85 to each non-employee director; and (4) allowed for an annual increase in the aggregate authorized shares to 1.5% of the then outstanding common shares. In addition, options granted under the Stock Incentive Plan have a maximum term of up to five years.

Unless otherwise stipulated by the Board of Directors, Restricted Stock Awards to employees under the Stock Incentive Plan vest over a four-year period from the grant date. During 2006, Restricted Stock Awards to certain directors vested immediately while other Restricted Stock Awards vested over periods of less than four years, as stipulated in the respective award agreements. Prior to vesting, the Restricted Stock Awards have voting rights and are entitled to dividends. Therefore such shares are considered outstanding for financial reporting purposes, but are included in the loss per share computations only to the extent vested.

As of June 30, 2007, the number of shares issuable under outstanding stock options was 8.3 million. The aggregate intrinsic value of options exercised during the three and six months ended June 30, 2007 was \$1.2 million and \$3.2 million, respectively. The intrinsic value is calculated as the difference between the market value on the date of exercise and the exercise price of the shares.

The Company determines the fair value of each stock option at the grant date using the Black-Scholes-Merton option valuation model. Generally, the Company's stock options vest ratably over a four-year period from date of grant and have contractual terms ranging from 5 to 10 years. Expected volatilities are calculated based on the historical volatilities of similar public companies in the telecommunications industry. The expected term of options granted is based on an average of the vesting term and the contractual life of the option, which represents management's estimate of the period that options granted are expected to be outstanding. The risk-free interest rate for periods within the contractual life of the options is based on the U.S. Treasury yield curve in effect at the time of the grant. The Company determines the fair value of each restricted common stock award based on the fair value of the Company's common stock at the date of grant.

The Company uses the straight-line method for share-based payment expense recognition, and estimates forfeitures and only recognizes share-based payment expense for those awards expected to vest. The Company's estimated forfeiture rate is based on its historical forfeiture experience.

The fair value of the options granted during the six months ended June 30, 2007 was determined using a Black-Scholes-Merton option pricing model and the assumptions set forth below:

Expected life of options	3.75 years
Volatility	70%
Risk-free interest rate	4.52% - 4.78%
Expected dividend yield	0.00%

The weighted-average grant-date fair value of stock options granted during the six months ended June 30, 2007 was \$2.70 per share.

As of June 30, 2007, there was \$9,136 of unrecognized compensation cost related to stock options. This cost is expected to be recognized over a weighted-average period of approximately 1.50 years.

In connection with the merger of First Avenue with Old FiberTower, the Company agreed to provide certain severance benefits, including cash compensation and the acceleration of vesting of 50% of the then outstanding stock options, to any of Old FiberTower's officers who are actually or constructively terminated within 12 months of the merger. During the six months ended June 30, 2007, no executives of Old FiberTower terminated employment.

Certain of the Company's key employees' stock option and restricted share agreements provide that, upon a change in control of the Company, 100% of the stock options and restricted shares granted to such employees will be fully vested.

During the six months ended June 30, 2007, the Company issued restricted stock under the Stock Incentive Plan to its employees and directors. Generally, the shares awarded to employees vest over a four-year period from grant date. Annual awards of restricted shares issued to non-employee directors in the first quarter of 2007, vested on the day immediately following the grant date. Prior to vesting, the restricted stock have voting rights and are entitled to dividends. Such shares are considered outstanding on the condensed consolidated balance sheet but are included in the net loss per share computations only to the extent vested. As of June 30, 2007, the number of restricted stock award shares outstanding was 3.0 million.