

LEAP WIRELESS INTERNATIONAL INC

Form 10-Q

May 10, 2007

Table of Contents

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2007

OR

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

For the transition period from _____ to _____.

Commission File Number 0-29752

Leap Wireless International, Inc.

(Exact name of registrant as specified in its charter)

**Delaware
(State or other jurisdiction of
incorporation or organization)**

**33-0811062
(I.R.S. Employer
Identification No.)**

**10307 Pacific Center Court, San Diego, CA
(Address of principal executive offices)**

**92121
(Zip Code)**

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

**Not applicable
(Former name, former address and former fiscal year, if changed since last reported)**

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.

Edgar Filing: LEAP WIRELESS INTERNATIONAL INC - Form 10-Q

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 Exchange Act). 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

The number of shares of registrant's common stock outstanding on May 4, 2007 was 68,086,879.

LEAP WIRELESS INTERNATIONAL, INC.

**QUARTERLY REPORT ON FORM 10-Q
For the Quarter Ended March 31, 2007**

TABLE OF CONTENTS

	Page	
<u>PART I FINANCIAL INFORMATION</u>		
<u>Item 1.</u>	<u>Financial Statements</u>	1
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	21
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	30
<u>Item 4.</u>	<u>Controls and Procedures</u>	30
<u>PART II OTHER INFORMATION</u>		
<u>Item 1.</u>	<u>Legal Proceedings</u>	31
<u>Item 1A.</u>	<u>Risk Factors</u>	32
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	47
<u>Item 3.</u>	<u>Defaults Upon Senior Securities</u>	47
<u>Item 4.</u>	<u>Submission of Matters to a Vote of Security Holders</u>	47
<u>Item 5.</u>	<u>Other Information</u>	47
<u>Item 6.</u>	<u>Exhibits</u>	48
<u>EXHIBIT 10.4.6</u>		
<u>EXHIBIT 10.5.2</u>		
<u>EXHIBIT 10.11.19</u>		
<u>Exhibit 10.13</u>		
<u>EXHIBIT 31.1</u>		
<u>EXHIBIT 31.2</u>		
<u>EXHIBIT 32</u>		

Table of Contents

PART I
FINANCIAL INFORMATION

Item 1. Financial Statements.

LEAP WIRELESS INTERNATIONAL, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except share amounts)

	March 31, 2007 (Unaudited)	December 31, 2006
Assets		
Cash and cash equivalents	\$ 303,784	\$ 374,939
Short-term investments	25,432	66,400
Restricted cash, cash equivalents and short-term investments	12,479	13,581
Inventories	75,985	90,185
Other current assets	55,038	53,527
Total current assets	472,718	598,632
Property and equipment, net	1,107,314	1,077,755
Wireless licenses	1,564,381	1,563,958
Assets held for sale		8,070
Goodwill	431,896	431,896
Other intangible assets, net	71,397	79,828
Deposits for wireless licenses	274,084	274,084
Other assets	39,054	58,745
Total assets	\$ 3,960,844	\$ 4,092,968
Liabilities and Stockholders Equity		
Accounts payable and accrued liabilities	\$ 173,606	\$ 316,494
Current maturities of long-term debt	9,000	9,000
Other current liabilities	96,897	74,637
Total current liabilities	279,503	400,131
Long-term debt	1,674,250	1,676,500
Deferred tax liabilities	141,439	149,728
Other long-term liabilities	49,038	47,608
Total liabilities	2,144,230	2,273,967
Minority interests	23,849	30,000

Edgar Filing: LEAP WIRELESS INTERNATIONAL INC - Form 10-Q

Commitments and contingencies (Note 7)

Stockholders' equity:

Preferred stock authorized 10,000,000 shares; \$.0001 par value, no shares issued and outstanding

Common stock authorized 160,000,000 shares; \$.0001 par value, 68,051,029 and 67,892,512 shares issued and outstanding at March 31, 2007 and

December 31, 2006, respectively

	7	7
Additional paid-in capital	1,782,880	1,769,772
Retained earnings	9,313	17,436
Accumulated other comprehensive income	565	1,786

Total stockholders' equity	1,792,765	1,789,001
----------------------------	-----------	-----------

Total liabilities and stockholders' equity	\$ 3,960,844	\$ 4,092,968
--	--------------	--------------

See accompanying notes to condensed consolidated financial statements.

Table of Contents**LEAP WIRELESS INTERNATIONAL, INC.****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS****(Unaudited and in thousands, except per share data)**

	Three Months Ended March 31,	
	2007	2006
Revenues:		
Service revenues	\$ 326,809	\$ 215,840
Equipment revenues	62,613	50,848
Total revenues	389,422	266,688
Operating expenses:		
Cost of service (exclusive of items shown separately below)	(90,949)	(55,204)
Cost of equipment	(112,482)	(58,886)
Selling and marketing	(48,560)	(29,102)
General and administrative	(65,199)	(49,582)
Depreciation and amortization	(68,800)	(54,036)
Total operating expenses	(385,990)	(246,810)
Net gain on sale of wireless licenses and disposal of operating assets	940	
Operating income	4,372	19,878
Minority interests in consolidated subsidiaries	1,520	(75)
Interest income	5,285	4,194
Interest expense	(26,496)	(7,431)
Other income (expense), net	(637)	535
Income (loss) before income taxes and cumulative effect of change in accounting principle	(15,956)	17,101
Income tax benefit	7,833	
Income (loss) before cumulative effect of change in accounting principle	(8,123)	17,101
Cumulative effect of change in accounting principle		623
Net income (loss)	\$ (8,123)	\$ 17,724
Basic earnings (loss) per share:		
Earnings (loss) before cumulative effect of change in accounting principle	\$ (0.12)	\$ 0.28
Cumulative effect of change in accounting principle		0.01
Basic earnings (loss) per share	\$ (0.12)	\$ 0.29
Diluted earnings (loss) per share:		
Earnings (loss) before cumulative effect of change in accounting principle	\$ (0.12)	\$ 0.28

Edgar Filing: LEAP WIRELESS INTERNATIONAL INC - Form 10-Q

Cumulative effect of change in accounting principle			0.01
Diluted earnings (loss) per share	\$	(0.12)	\$ 0.29
Shares used in per share calculations:			
Basic		66,870	61,203
Diluted		66,870	61,961

See accompanying notes to condensed consolidated financial statements.

Table of Contents**LEAP WIRELESS INTERNATIONAL, INC.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(Unaudited and in thousands)**

	Three Months Ended March 31,	
	2007	2006
Operating activities:		
Net cash provided by operating activities	\$ 4,900	\$ 38,290
Investing activities:		
Purchases of property and equipment	(131,737)	(60,894)
Change in prepayments for purchases of property and equipment	7,409	4,573
Purchases of and deposits for wireless licenses	(423)	(91)
Proceeds from sale of wireless licenses	9,500	
Purchases of investments	(42,727)	(46,865)
Sales and maturities of investments	84,293	72,657
Purchase of minority interest	(4,706)	
Changes in restricted cash, cash equivalents and short-term investments, net	1,102	(50)
Net cash used in investing activities	(77,289)	(30,670)
Financing activities:		
Repayment of long-term debt	(2,250)	(1,527)
Payment of debt issuance costs	(881)	(91)
Minority interest contributions		668
Proceeds from issuance of common stock, net	4,365	233
Net cash provided by (used in) financing activities	1,234	(717)
Net increase (decrease) in cash and cash equivalents	(71,155)	6,903
Cash and cash equivalents at beginning of period	374,939	293,073
Cash and cash equivalents at end of period	\$ 303,784	\$ 299,976
Supplementary cash flow information:		
Cash paid for interest	\$ 18,373	\$ 11,098
Cash paid for income taxes	\$ 332	\$ 168

See accompanying notes to condensed consolidated financial statements.

Table of Contents

LEAP WIRELESS INTERNATIONAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 1. The Company

Leap Wireless International, Inc. (Leap), a Delaware corporation, together with its subsidiaries, is a wireless communications carrier that offers digital wireless service in the United States of America under the Cricket® and Jump™ Mobile brands. Cricket service offers customers unlimited wireless service in their Cricket service area for a flat monthly rate without requiring a fixed-term contract or credit check. Jump Mobile service offers customers a per-minute prepaid wireless service. Leap conducts operations through its subsidiaries and has no independent operations or sources of operating revenue other than through dividends, if any, from its subsidiaries. Cricket and Jump Mobile services are offered by Cricket Communications, Inc. (Cricket), a wholly owned subsidiary of Leap, and Alaska Native Broadband 1 License, LLC (ANB 1 License), an indirect wholly owned subsidiary of Leap. Leap, Cricket, ANB 1 License and their subsidiaries are collectively referred to herein as the Company. Cricket and Jump Mobile services are also offered in Oregon by LCW Wireless Operations, LLC (LCW Operations), a designated entity under Federal Communications Commission (FCC) regulations. Cricket owns an indirect 73.3% non-controlling interest in LCW Operations through a 73.3% non-controlling interest in LCW Wireless, LLC (LCW Wireless). Cricket also owns an 82.5% non-controlling interest in Denali Spectrum, LLC (Denali), which participated in the FCC's auction for Advanced Wireless Service licenses (Auction #66) as a designated entity through its wholly owned subsidiary, Denali Spectrum License, LLC (Denali License).

On March 5, 2007, Cricket acquired the remaining 25% of the membership interests in Alaska Native Broadband 1, LLC (ANB 1), following Alaska Native Broadband, LLC's exercise of its option to sell its entire 25% controlling interest in ANB 1 to Cricket for \$4.7 million. As a result of the acquisition, ANB 1 and its wholly owned subsidiary, ANB 1 License, became direct and indirect wholly owned subsidiaries, respectively, of Cricket.

The Company operates in a single operating segment as a wireless communications carrier that offers digital wireless service in the United States of America. As of and for the three months ended March 31, 2007, all of the Company's revenues and long-lived assets related to operations in the United States of America.

Note 2. Basis of Presentation and Significant Accounting Policies

Basis of Presentation

The accompanying interim condensed consolidated financial statements have been prepared by the Company without audit, in accordance with the instructions to Form 10-Q and, therefore, do not include all information and footnotes required by accounting principles generally accepted in the United States of America for a complete set of financial statements. These condensed consolidated financial statements and notes thereto should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2006. In the opinion of management, the unaudited financial information for the interim periods presented reflects all adjustments necessary for a fair statement of the results for the periods presented, with such adjustments consisting only of normal recurring adjustments. Operating results for interim periods are not necessarily indicative of operating results for an entire fiscal year.

The condensed consolidated financial statements include the accounts of Leap and its wholly owned subsidiaries as well as the accounts of LCW Wireless and Denali and their wholly owned subsidiaries. The Company consolidates its interests in LCW Wireless and Denali in accordance with Financial Accounting Standards Board (FASB) Interpretation No. (FIN) 46-R, Consolidation of Variable Interest Entities, because these entities are variable interest

entities and the Company will absorb a majority of their expected losses. All significant intercompany accounts and transactions have been eliminated in the condensed consolidated financial statements.

Revenues

Cricket's business revenues principally arise from the sale of wireless services, handsets and accessories. Wireless services are generally provided on a month-to-month basis. Cricket service offers customers unlimited

Table of Contents

wireless service in their Cricket service area for a flat monthly rate, and Jump Mobile service offers customers a per-minute prepaid wireless service. The Company does not require any of its customers to sign fixed-term service commitments or submit to a credit check, and therefore some of its customers may be more likely to terminate service for inability to pay than the customers of other wireless providers. Amounts received in advance for wireless services from customers who pay in advance of their billing cycle are initially recorded as deferred revenues and are recognized as service revenues as services are rendered. Service revenues for customers who pay in arrears are recognized only after the service has been rendered and payment has been received. Starting in May 2006, all new and reactivating customers are required to pay for their service in advance.

Equipment revenues arise from the sale of handsets and accessories. Revenues and related costs from the sale of handsets are recognized when service is activated by customers. Revenues and related costs from the sale of accessories are recognized at the point of sale. The costs of handsets and accessories sold are recorded in cost of equipment. Sales of handsets to third-party dealers and distributors are recognized as equipment revenues when service is activated by customers, as the Company is currently unable to reliably estimate the level of price reductions ultimately available to such dealers and distributors until the handsets are sold through to customers. Handsets sold to third-party dealers and distributors are recorded as inventory until they are sold to and activated by customers.

Sales incentives offered without charge to customers and volume-based incentives paid to the Company's third-party dealers and distributors are recognized as a reduction of revenue and as a liability when the related service or equipment revenue is recognized. Customers have limited rights to return handsets and accessories based on time and/or usage. Customer returns of handsets and accessories have historically been insignificant.

Costs and Expenses

The Company's costs and expenses include:

Cost of Service. The major components of cost of service are: charges from other communications companies for long distance, roaming and content download services provided to the Company's customers; charges from other communications companies for their transport and termination of calls originated by the Company's customers and destined for customers of other networks; and expenses for tower and network facility rent, engineering operations, field technicians and related utility and maintenance charges, and salary and overhead charges associated with these functions.

Cost of Equipment. Cost of equipment primarily includes the cost of handsets and accessories purchased from third-party vendors and resold to the Company's customers in connection with its services, as well as lower of cost or market write-downs associated with excess and damaged handsets and accessories.

Selling and Marketing. Selling and marketing expenses primarily include advertising, promotional and public relations costs associated with acquiring new customers, store operating costs such as retail associates' salaries and rent, and overhead charges associated with selling and marketing functions.

General and Administrative. General and administrative expenses primarily include call center and other customer care program costs and salary and overhead costs associated with the Company's customer care, billing, information technology, finance, human resources, accounting, legal and executive functions.

Property and Equipment

Property and equipment are initially recorded at cost. Additions and improvements are capitalized, while expenditures that do not enhance the asset or extend its useful life are charged to operating expenses as incurred. Depreciation is

applied using the straight-line method over the estimated useful lives of the assets once the assets are placed in service.

Table of Contents

The following table summarizes the depreciable lives for property and equipment (in years):

	Depreciable Life
Network equipment:	
Switches	10
Switch power equipment	15
Cell site equipment, and site acquisitions and improvements	7
Towers	15
Antennae	3
Computer hardware and software	3-5
Furniture, fixtures, retail and office equipment	3-7

The Company's network construction expenditures are recorded as construction-in-progress until the network or assets are placed in service, at which time the assets are transferred to the appropriate property or equipment category. As a component of construction-in-progress, the Company capitalizes interest and salaries and related costs of engineering and technical operations employees, to the extent time and expense are contributed to the construction effort, during the construction period. Interest is capitalized on the carrying values of both wireless licenses and equipment during the construction period and is depreciated over an estimated useful life of 10 years. During the three months ended March 31, 2007 and 2006, the Company capitalized interest of \$10.7 million and \$4.4 million, respectively, to property and equipment.

Property and equipment to be disposed of by sale is not depreciated and is carried at the lower of carrying value or fair value less costs to sell. At March 31, 2007 and December 31, 2006, there was no property and equipment classified as assets held for sale.

Wireless Licenses

Wireless licenses are initially recorded at cost and are not amortized. Wireless licenses are considered to be indefinite-lived intangible assets because the Company expects to continue to provide wireless service using the relevant licenses for the foreseeable future, and wireless licenses may be renewed every ten to fifteen years for a nominal fee. Wireless licenses to be disposed of by sale are carried at the lower of carrying value or fair value less costs to sell. At March 31, 2007, there were no wireless licenses classified as assets held for sale. At December 31, 2006, wireless licenses with a carrying value of \$8.1 million were classified as assets held for sale.

Concentrations

The Company generally relies on one key vendor for billing services and one key vendor for handset logistics. Loss or disruption of these services could adversely affect the Company's business.

Share-Based Compensation

The Company accounts for share-based awards exchanged for employee services in accordance with Statement of Financial Accounting Standards (SFAS) No. 123R, Share-Based Payment (SFAS 123R). Under SFAS 123R, share-based compensation cost 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.

Table of Contents

Total share-based compensation expense related to all of the Company's share-based awards for the three months ended March 31, 2007 and 2006 was allocated as follows (in thousands, except per share data):

	Three Months Ended March 31,	
	2007	2006
Cost of service	\$ 679	\$ 258
Selling and marketing expenses	1,001	327
General and administrative expenses	7,063	4,141
Share-based compensation expense before tax	8,743	4,726
Related income tax benefit	(3,432)	
Share-based compensation expense, net of tax	\$ 5,311	\$ 4,726
Net share-based compensation expense per share:		
Basic	\$ 0.08	\$ 0.08
Diluted	\$ 0.08	\$ 0.08

Income Taxes

The provision for income taxes during interim quarterly reporting periods is based on the Company's estimate of the annual effective tax rate for the full fiscal year. The Company determines the annual effective tax rate based upon its estimated ordinary income (loss), which is its annual income (loss) from continuing operations before tax, excluding unusual or infrequently occurring items. Significant management judgment is required in projecting the Company's annual income (loss) and determining its annual effective tax rate. The Company provides for income taxes in each of the jurisdictions in which it operates. This process involves estimating the actual current tax expense and any deferred income tax expense resulting from temporary differences arising from differing treatments of items for tax and accounting purposes. These temporary differences result in deferred tax assets and liabilities.

Deferred tax assets are also established for the expected future tax benefits to be derived from net operating loss and capital loss carryforwards.

The Company must then assess the likelihood that its deferred tax assets will be recovered from future taxable income. To the extent that the Company believes it is more likely than not that its deferred tax assets will not be recovered, it must establish a valuation allowance. The Company considers all available evidence, both positive and negative, including the Company's historical operating losses, to determine the need for a valuation allowance. The Company has recorded a full valuation allowance on its net deferred tax asset balances for all periods presented because of uncertainties related to the utilization of its deferred tax assets. Deferred tax liabilities associated with wireless licenses, tax goodwill and investments in certain joint ventures cannot be considered a source of taxable income to support the realization of deferred tax assets because these deferred tax liabilities will not reverse until some indefinite future period.

At such time as the Company determines that it is more likely than not that the deferred tax assets are realizable, the valuation allowance will be reduced. Pursuant to American Institute of Certified Public Accountants' Statement of Position 90-7, Financial Reporting by Entities in Reorganization under the Bankruptcy Code, future decreases in the valuation allowance established in fresh-start reporting will be accounted for as a reduction in goodwill rather than as a reduction of tax expense.

The Company adopted the provisions of Financial Standards Accounting Board Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48) an interpretation of FASB Statement No. 109 , on January 1, 2007. The adoption of FIN 48 did not have a material effect on the Company's consolidated financial position or results of operations. At the date of adoption and at March 31, 2007, the Company's unrecognized income tax benefits and uncertain tax positions were not material.

Table of Contents

Interest and penalties related to uncertain tax positions are recognized by the Company as a component of income tax expense but were immaterial on the date of adoption and at March 31, 2007. All of the Company's tax years from 1998 to 2006 remain open to examination by federal and state taxing authorities.

Comprehensive Income (Loss)

Comprehensive income (loss) consists of the following (in thousands):

	Three Months Ended March 31,	
	2007	2006
Net income (loss)	\$ (8,123)	\$ 17,724
Other comprehensive income (loss):		
Net unrealized holding losses on investments, net of tax	(27)	(17)
Unrealized gains (losses) on interest rate swaps, net of tax	(1,194)	2,149
Comprehensive income (loss)	\$ (9,344)	\$ 19,856

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

	March 31, 2007	December 31, 2006
Net unrealized holding losses on investments, net of tax	\$ (31)	\$ (4)
Unrealized gains on interest rate swaps, net of tax	596	1,790
Accumulated other comprehensive income	\$ 565	\$ 1,786

Recent Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements (SFAS 157), which defines fair value, establishes a framework for measuring fair value in accounting principles generally accepted in the United States of America and expands disclosure about fair value measurements. The Company will be required to adopt SFAS 157 in the first quarter of 2008. The Company is currently evaluating what impact, if any, SFAS 157 will have on its consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115 (SFAS 159), which permits all entities to choose, at specified election dates, to measure eligible items at fair value and establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. The Company will be required to adopt SFAS 159 in the first quarter of 2008. The Company is currently evaluating what impact, if any, SFAS 159 will have on its consolidated financial statements.

Table of Contents**Note 3. Supplementary Balance Sheet Information (in thousands):**

	March 31, 2007	December 31, 2006
Other current assets:		
Accounts receivable, net	\$ 27,931	\$ 37,422
Prepaid expenses	22,622	11,808
Other	4,485	4,297
	\$ 55,038	\$ 53,527
Property and equipment, net:		
Network equipment	\$ 1,196,582	\$ 1,134,807
Computer equipment and other	102,594	93,816
Construction-in-progress	255,743	237,813
	1,554,919	1,466,436
Accumulated depreciation	(447,605)	(388,681)
	\$ 1,107,314	\$ 1,077,755
Accounts payable and accrued liabilities:		
Trade accounts payable	\$ 87,693	\$ 218,019
Accrued payroll and related benefits	24,557	29,450
Other accrued liabilities	61,356	69,025
	\$ 173,606	\$ 316,494
Other current liabilities:		
Accrued sales, telecommunications, property and other taxes payable	\$ 25,985	\$ 26,899
Deferred revenue	33,108	27,933
Accrued interest	31,060	13,671
Other	6,744	6,134
	\$ 96,897	\$ 74,637

Note 4. Basic and Diluted Earnings (Loss) Per Share

Basic earnings (loss) per share is computed by dividing net income (loss) by the weighted-average number of common shares outstanding during the period. Diluted earnings per share is computed based on the weighted-average number of common shares outstanding during the period increased by the weighted-average number of dilutive common share equivalents outstanding during the period, using the treasury stock method. Dilutive securities are comprised of stock options, restricted stock awards and warrants.

Table of Contents

A reconciliation of weighted-average shares outstanding used in calculating basic and diluted earnings (loss) per share is as follows (in thousands):

	Three Months Ended March 31,	
	2007	2006
Weighted-average shares outstanding basic earnings per share	66,870	61,203
Effect of dilutive securities:		
Stock options		31
Restricted stock awards		381
Warrants		346
Adjusted weighted-average shares outstanding diluted earnings per share	66,870	61,961

The number of shares not included in the computation of diluted earnings (loss) per share because their effect would have been antidilutive totaled 4.8 million and 1.3 million for the three months ended March 31, 2007 and 2006, respectively.

Note 5. Long-Term Debt

Long-term debt at March 31, 2007 and December 31, 2006 was comprised of the following (in thousands):

	March 31, 2007	December 31, 2006
Term loans under senior secured credit facilities	\$ 933,250	\$ 935,500
Senior notes	750,000	750,000
	1,683,250	1,685,500
Current maturities of long-term debt	(9,000)	(9,000)
	\$ 1,674,250	\$ 1,676,500

Senior Secured Credit Facilities

On March 15, 2007, the Company entered into an agreement amending Cricket's senior secured credit facility. The new facility under Cricket's amended and restated senior secured credit agreement (the "Credit Agreement") consists of a six year \$895.5 million term loan and an undrawn \$200 million revolving credit facility. The new term loan bears interest at the London Interbank Offered Rate (LIBOR) plus 2.25% or the bank base rate plus 1.25%, as selected by Cricket, with the rate subject to adjustment based on Leap's corporate family debt rating. These new interest rates represent a reduction of 50 basis points from the rates applicable to the term loan prior to the amendment. Outstanding borrowings under the new term loan must be repaid in 22 quarterly payments of \$2.25 million each, followed by four quarterly payments of \$211.5 million each which commence September 30, 2012. If the new term loan is prepaid in

connection with a re-pricing transaction prior to March 15, 2008, a prepayment premium in the amount of 1.0% of the principal amount prepaid will be payable by Cricket.

Outstanding borrowings under the revolving credit facility are due in June 2011. The commitment of the lenders under the revolving credit facility may be reduced in the event mandatory prepayments are required under the Credit Agreement. The commitment fee on the revolving credit facility is payable quarterly at a rate of between 0.25% and 0.50% per annum, depending on the Company's consolidated senior secured leverage ratio. Borrowings under the revolving credit facility would currently accrue interest at LIBOR plus 2.0% or the bank base rate plus 1.0%, as selected by Cricket, with the rate subject to adjustment based on the Company's consolidated senior secured leverage ratio.

The facilities under the Credit Agreement are guaranteed by Leap and all of its direct and indirect domestic subsidiaries (other than Cricket, which is the primary obligor, LCW Wireless and Denali and their respective subsidiaries) and are secured by substantially all of the present and future personal property and owned real property of Leap, Cricket and such direct and indirect domestic subsidiaries. Under the Credit Agreement, the Company is

Table of Contents

subject to certain limitations, including limitations on its ability to: incur additional debt or sell assets, with restrictions on the use of proceeds; make certain investments and acquisitions; grant liens; pay dividends; and make certain other restricted payments. In addition, the Company will be required to pay down the facilities under certain circumstances if it issues debt, sells assets or property, receives certain extraordinary receipts or generates excess cash flow (as defined in the Credit Agreement). The Company is also subject to a financial covenant with respect to a maximum consolidated senior secured leverage ratio and, if a revolving credit loan or uncollateralized letter of credit is outstanding, with respect to a minimum consolidated interest coverage ratio, a maximum consolidated leverage ratio and a minimum consolidated fixed charge ratio. In addition to investments in joint ventures relating to the FCC's Auction #66, the Credit Agreement allows the Company to invest up to \$85 million in LCW Wireless and its subsidiaries and up to \$150 million plus an amount equal to an available cash flow basket in other joint ventures, and allows the Company to provide limited guarantees for the benefit of LCW Wireless and other joint ventures.

Affiliates of Highland Capital Management, L.P. (a beneficial stockholder of Leap and an affiliate of James D. Dondero, a director of Leap) participated in the syndication of the new term loan in an amount equal to \$222.9 million. Additionally, Highland Capital Management continues to hold \$40 million of the \$200 million revolving credit facility.

At March 31, 2007, the effective interest rate on the term loan was 7.7%, including the effect of interest rate swaps, and the outstanding indebtedness was \$893.3 million. The terms of the Credit Agreement require the Company to enter into interest rate swap agreements in a sufficient amount so that at least 50% of the Company's total outstanding indebtedness for borrowed money bears interest at a fixed rate. The Company has entered into interest rate swap agreements with respect to \$355 million of its debt. These swap agreements effectively fix the interest rate on \$250 million of indebtedness at 6.7% and \$105 million of indebtedness at 6.8% through June 2007 and 2009, respectively. The fair value of the swap agreements at March 31, 2007 and December 31, 2006 was \$2.0 million and \$3.2 million, respectively, and was recorded in other assets in the condensed consolidated balance sheets.

LCW Operations has a senior secured credit agreement consisting of two term loans for \$40 million in the aggregate. The loans bear interest at LIBOR plus the applicable margin ranging from 2.7% to 6.3%. At March 31, 2007, the effective interest rate on the term loans was 9.6%, and the outstanding indebtedness was \$40 million. In January 2007, LCW Operations entered into an interest rate cap agreement which effectively caps the three-month LIBOR at 7.0% on \$20 million of its outstanding borrowings. The obligations under the loans are guaranteed by LCW Wireless and LCW Wireless License, LLC, a wholly owned subsidiary of LCW Operations (and are non-recourse to Leap, Cricket and their other subsidiaries). Outstanding borrowings under the term loans must be repaid in varying quarterly installments starting in June 2008, with an aggregate final payment of \$24.5 million due in June 2011. Under the senior secured credit agreement, LCW Operations and the guarantors are subject to certain limitations, including limitations on their ability to: incur additional debt or sell assets; make certain investments; grant liens; pay dividends; and make certain other restricted payments. In addition, LCW Operations will be required to pay down the facilities under certain circumstances if it or the guarantors issue debt, sell assets or generate excess cash flow. The senior secured credit agreement requires that LCW Operations and the guarantors comply with financial covenants related to earnings before interest, taxes, depreciation and amortization, gross additions of subscribers, minimum cash and cash equivalents and maximum capital expenditures, among other things.

Senior Notes

In October 2006, Cricket issued \$750 million of unsecured senior notes due in 2014. The notes bear interest at the rate of 9.375% per year, payable semi-annually in cash in arrears beginning in May 2007. The notes are guaranteed on an unsecured senior basis by Leap and each of its existing and future domestic subsidiaries (other than Cricket, which is the issuer of the notes, and LCW Wireless and Denali and their respective subsidiaries) that guarantee indebtedness for money borrowed of Leap, Cricket or any subsidiary guarantor. The notes and the guarantees are Leap's, Cricket's

and the guarantors' general senior unsecured obligations and rank equally in right of payment with all of Leap's, Cricket's and the guarantors' existing and future unsubordinated unsecured indebtedness. The notes and the guarantees are effectively junior to Leap's, Cricket's and the guarantors' existing and future secured obligations, including those under the Credit Agreement, to the extent of the value of the assets

Table of Contents

securing such obligations, as well as to future liabilities of Leap's and Cricket's subsidiaries that are not guarantors, and of LCW Wireless and Denali and their respective subsidiaries. In addition, the notes and the guarantees are senior in right of payment to any of Leap's, Cricket's and the guarantors' future subordinated indebtedness (Note 8). On March 23, 2007, the Company filed a registration statement with the Securities and Exchange Commission (SEC) offering to exchange the notes for identical notes that have been registered with the SEC. On April 19, 2007, the Company commenced the exchange offer for the notes. The exchange offer expires on May 16, 2007, unless extended by the Company.

Prior to November 1, 2009, Cricket may redeem up to 35% of the aggregate principal amount of the notes at a redemption price of 109.375% 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 November 1, 2010, Cricket may redeem the notes, in whole or in part, at a redemption price equal to 100% of the principal amount thereof plus the applicable premium and any accrued and unpaid interest. The applicable premium is calculated as the greater of (i) 1.0% of the principal amount of such notes and (ii) the excess of (a) the present value at such date of redemption of (1) the redemption price of such notes at November 1, 2010 plus (2) all remaining required interest payments due on such notes through November 1, 2010 (excluding accrued but unpaid interest to the date of redemption), computed using a discount rate equal to the Treasury Rate plus 50 basis points, over (b) the principal amount of such notes. The notes may be redeemed, in whole or in part, at any time on or after November 1, 2010, at a redemption price of 104.688% and 102.344% of the principal amount thereof if redeemed during the twelve months ending October 31, 2011 and 2012, respectively, or at 100% of the principal amount if redeemed during the twelve months ending October 31, 2013 or thereafter, plus accrued and unpaid interest. If a change of control (as defined in the indenture governing the notes) occurs, 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.

Affiliates of Highland Capital Management, L.P. (a beneficial stockholder of Leap and an affiliate of James D. Dondero, a director of Leap) purchased an aggregate of \$25 million principal amount of senior notes in the Company's offering. In March 2007, these notes were sold by the Highland entities to a third party.

Note 6. Significant Acquisitions and Dispositions

In January 2007, the Company completed the sale of three wireless licenses that it was not using to offer commercial service for an aggregate sales price of \$9.5 million, resulting in a net gain of \$1.3 million.

Note 7. Commitments and Contingencies

Outstanding Bankruptcy Claims

Although the Company's plan of reorganization became effective and the Company emerged from bankruptcy in August 2004, a tax claim of approximately \$4.9 million Australian dollars asserted by the Australian government against Leap in the U.S. Bankruptcy Court for the Southern District of California in Case Nos. 03-03470-All to 03-035335-All (jointly administered) remained outstanding as of January 1, 2007. The Company, the Australian government and the trust established in bankruptcy for the benefit of the Leap general unsecured creditors subsequently settled this claim for \$600,000 subject to Bankruptcy Court approval, which was granted. The settlement payment was made from funds set aside and reserved pursuant to the bankruptcy proceedings for payment of allowed bankruptcy claims against Leap.

Patent Litigation

On June 14, 2006, the Company sued MetroPCS Communications, Inc. (MetroPCS) in the United States District Court for the Eastern District of Texas for infringement of U.S. Patent No. 6,813,497 *Method for Providing Wireless Communication Services and Network and System for Delivering Same*, issued to the Company. The Company's complaint seeks damages and an injunction against continued infringement. On August 3, 2006, MetroPCS (i) answered the complaint, (ii) raised a number of affirmative defenses, and (iii) together with certain related entities (referred to, collectively with MetroPCS, as the MetroPCS entities), counterclaimed against Leap, Cricket, numerous Cricket subsidiaries, ANB 1 License, Denali License, and current and former

Table of Contents

employees of Leap and Cricket, including Leap CEO Douglas Hutcheson. The countersuit alleges claims for breach of contract, misappropriation, conversion and disclosure of trade secrets, misappropriation of confidential information and breach of confidential relationship, relating to information provided by MetroPCS to such employees, including prior to their employment by Leap, and asks the court to award damages, including punitive damages, impose an injunction enjoining the Company from participating in Auction #66, impose a constructive trust on the Company's business and assets for the benefit of MetroPCS, and declare that the MetroPCS entities have not infringed U.S. Patent No. 6,813,497 and that such patent is invalid. MetroPCS's claims allege that the Company and the other counterclaim defendants improperly obtained, used and disclosed trade secrets and confidential information of the MetroPCS entities and breached confidentiality agreements with the MetroPCS entities. Denali License has since been dismissed, without prejudice, as a counterclaim defendant. Based upon the Company's review of the counterclaims, the Company believes that it has meritorious defenses and intends to vigorously defend against the counterclaims. If the MetroPCS entities were to prevail in their counterclaims, it could have a material adverse effect on the Company's business, financial condition and results of operations. On September 22, 2006, Royal Street Communications, LLC (Royal Street), an entity affiliated with MetroPCS, filed an action in the United States District Court for the Middle District of Florida seeking a declaratory judgment that the Company's U.S. Patent No. 6,813,497 is invalid and is not being infringed by Royal Street or its PCS systems. On October 17, 2006, the Company filed a motion to dismiss the case or, in the alternative, to transfer the case to the Eastern District of Texas. The Company intends to vigorously defend against these actions.

On August 17, 2006, the Company was served with a complaint filed by certain MetroPCS entities in the Superior Court of the State of California, which names Leap, Cricket, certain of its subsidiaries, and certain current and former employees of Leap and Cricket, including Leap CEO Douglas Hutcheson, as defendants. In the complaint, the MetroPCS entities allege unfair competition, misappropriation of trade secrets, (with respect to the individuals sued) intentional and negligent interference with contract, breach of contract, intentional interference with prospective economic advantage and trespass, and ask the court to award damages, including punitive damages, and restitution. In February 2007, the court dismissed the trespass claim, without prejudice, and ordered MetroPCS to amend its complaint to clearly identify which claims are being made against each defendant. Two affiliates of MetroPCS filed a first amended complaint which was also dismissed by the court with leave to file a second amended complaint on or before May 14, 2007. It is unclear whether, if the MetroPCS entities were to prevail in this action, it could have a material adverse effect on the Company's business, financial condition and results of operations. The Company intends to vigorously defend against the claims.

Other

On December 31, 2002, several members of American Wireless Group, LLC, referred to in these financial statements as AWG, filed a lawsuit against various officers and directors of Leap in the Circuit Court of the First Judicial District of Hinds County, Mississippi, referred to herein as the Whittington Lawsuit. Leap purchased certain FCC wireless licenses from AWG and paid for those licenses with shares of Leap stock. The complaint alleges that Leap failed to disclose to AWG material facts regarding a dispute between Leap and a third party relating to that party's claim that it was entitled to an increase in the purchase price for certain wireless licenses it sold to Leap. In their complaint, plaintiffs seek rescission and/or damages according to proof at trial of not less than the aggregate amount paid for the Leap stock (alleged in the complaint to have a value of approximately \$57.8 million in June 2001 at the closing of the license sale transaction), plus interest, punitive or exemplary damages in the amount of not less than three times compensatory damages, and costs and expenses. Plaintiffs contend that the named defendants are the controlling group that was responsible for Leap's alleged failure to disclose the material facts regarding the third party dispute and the risk that the shares held by the plaintiffs might be diluted if the third party was successful with respect to its claim. The defendants in the Whittington Lawsuit filed a motion to compel arbitration or, in the alternative, to dismiss the Whittington Lawsuit. The motion noted that plaintiffs, as members of AWG, agreed to arbitrate disputes pursuant to the license purchase agreement, that they failed to plead facts that show that they are entitled to relief, that Leap made

adequate disclosure of the relevant facts regarding the third party dispute and that any failure to disclose such information did not cause any damage to the plaintiffs. The court denied defendants' motion and the defendants have appealed the denial of the motion to the state supreme court.

Table of Contents

In a related action to the action described above, in June 2003, AWG filed a lawsuit in the Circuit Court of the First Judicial District of Hinds County, Mississippi, referred to herein as the AWG Lawsuit, against the same individual defendants named in the Whittington Lawsuit. The complaint generally sets forth the same claims made by the plaintiffs in the Whittington Lawsuit. In its complaint, plaintiff seeks rescission and/or damages according to proof at trial of not less than the aggregate amount paid for the Leap stock (alleged in the complaint to have a value of approximately \$57.8 million in June 2001 at the closing of the license sale transaction), plus interest, punitive or exemplary damages in the amount of not less than three times compensatory damages, and costs and expenses. Defendants filed a motion to compel arbitration or, in the alternative, to dismiss the AWG Lawsuit, making arguments similar to those made in their motion to dismiss the Whittington Lawsuit. The motion was denied and the defendants have appealed the ruling to the state supreme court. AWG recently agreed to arbitrate this lawsuit and filed a motion in the Circuit Court seeking to stay the proceeding pending arbitration.

Although Leap is not a defendant in either the Whittington or AWG Lawsuits, several of the defendants have indemnification agreements with the Company. Leap's D&O insurers have not filed a reservation of rights letter and have been paying defense costs. Management believes that the liability, if any, from the AWG and Whittington Lawsuits and the related indemnity claims of the defendants against Leap is not probable or estimable; therefore, no accrual has been made in the Company's condensed consolidated financial statements as of March 31, 2007 related to these contingencies.

In addition to the matters described above, the Company is often involved in certain other claims arising in the course of business, seeking monetary damages and other relief. The amount of the liability, if any, from such claims cannot currently be reasonably estimated; therefore, no accruals have been made in the Company's condensed consolidated financial statements as of March 31, 2007 for such claims.

Note 8. Guarantor Financial Information

The \$750 million of unsecured senior notes issued by Cricket (the Issuing Subsidiary) are jointly and severally guaranteed on a full and unconditional basis by Leap (the Guarantor Parent Company) and certain of its direct and indirect wholly owned subsidiaries, Cricket's subsidiaries that hold real property interests or wireless licenses, ANB 1 and ANB 1 License (collectively, the Guarantor Subsidiaries).

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

Condensed consolidating financial information of the Guarantor Parent Company, Issuing Subsidiary, Guarantor Subsidiaries, non-guarantor subsidiaries and total consolidated Leap and subsidiaries as of March 31, 2007 and December 31, 2006 and for the three months ended March 31, 2007 and 2006 is presented below. The equity method of accounting is used to account for ownership interests in subsidiaries, where applicable.

Table of Contents**Condensed Consolidating Balance Sheet as of March 31, 2007 (in thousands):**

	Guarantor Parent Company	Issuing Subsidiary	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating and Eliminating Adjustments	Consolidated
Assets						
Cash and cash equivalents	\$ 132	\$ 258,236	\$ 24,281	\$ 21,135	\$	\$ 303,784
Short-term investments		25,432				25,432
Restricted cash, cash equivalents and short-term investments	7,579	4,260	640			12,479
Inventories		73,571	1,858	556		75,985
Other current assets	1,091	28,972	24,512	463		55,038
Total current assets	8,802	390,471	51,291	22,154		472,718
Property and equipment, net	96	916,285	144,803	46,130		1,107,314
Investments in and advances to affiliates and consolidated subsidiaries	1,819,979	2,074,993	162,440		(4,057,412)	
Wireless licenses			1,528,012	36,369		1,564,381
Goodwill		431,896				431,896
Other intangible assets, net		71,044		353		71,397
Deposits for wireless licenses				274,084		274,084
Other assets	43	34,093	2,304	2,614		39,054
Total assets	\$ 1,828,920	\$ 3,918,782	\$ 1,888,850	\$ 381,704	\$ (4,057,412)	\$ 3,960,844
Liabilities and Stockholders Equity						
Accounts payable and accrued liabilities	\$ 6,241	\$ 155,230	\$ 7,407	\$ 4,728	\$	\$ 173,606
Current maturities of long-term debt		9,000				9,000
Intercompany payables	29,914	180,926	90,965	4,705	(306,510)	
Other current liabilities		76,598	19,046	1,253		96,897
Total current liabilities	36,155	421,754	117,418	10,686	(306,510)	279,503
Long-term debt		1,634,250	301,288	281,567	(542,855)	1,674,250
Deferred tax liabilities		10,502	130,937			141,439
Other long-term liabilities		43,050	4,840	1,148		49,038

Edgar Filing: LEAP WIRELESS INTERNATIONAL INC - Form 10-Q

Total liabilities	36,155	2,109,556	554,483	293,401	(849,365)	2,144,230
Minority interests		1,553			22,296	23,849
Stockholders equity	1,792,765	1,807,673	1,334,367	88,303	(3,230,343)	1,792,765
Total liabilities and stockholders equity	\$ 1,828,920	\$ 3,918,782	\$ 1,888,850	\$ 381,704	\$ (4,057,412)	\$ 3,960,844

Table of Contents**Condensed Consolidating Balance Sheet as of December 31, 2006 (in thousands):**

	Guarantor Parent Company	Issuing Subsidiary	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating and Eliminating Adjustments	Consolidated
Assets						
Cash and cash equivalents	\$ 206	\$ 318,290	\$ 13,052	\$ 43,391	\$	\$ 374,939
Short-term investments		66,400				66,400
Restricted cash, cash equivalents and short-term investments	8,093	4,258	495	735		13,581
Inventories		87,303	2,080	802		90,185
Other current assets	877	39,827	12,432	391		53,527
Total current assets	9,176	516,078	28,059	45,319		598,632
Property and equipment, net	117	892,093	147,521	38,024		1,077,755
Investments in and advances to affiliates and consolidated subsidiaries	1,815,873	2,047,241	154,253		(4,017,367)	
Wireless licenses			1,527,574	36,384		1,563,958
Assets held for sale			8,070			8,070
Goodwill		431,896				431,896
Other intangible assets, net		79,409		419		79,828
Deposits for wireless licenses				274,084		274,084
Other assets	43	45,616	11,259	1,827		58,745
Total assets	\$ 1,825,209	\$ 4,012,333	\$ 1,876,736	\$ 396,057	\$ (4,017,367)	\$ 4,092,968
Liabilities and Stockholders Equity						
Accounts payable and accrued liabilities	\$ 6,789	\$ 274,356	\$ 25,104	\$ 10,245	\$	\$ 316,494
Current maturities of long-term debt		9,000				9,000
Intercompany payables	29,419	169,794	70,776	9,862	(279,851)	
Other current liabilities		60,167	14,006	464		74,637
Total current liabilities	36,208	513,317	109,886	20,571	(279,851)	400,131
Long-term debt		1,636,500	277,955	271,442	(509,397)	1,676,500
Deferred tax liabilities		10,502	139,226			149,728
		42,467	4,155	986		47,608

Other long-term liabilities

Total liabilities	36,208	2,202,786	531,222	292,999	(789,248)	2,273,967
Minority interests		5,978			24,022	30,000
Stockholders equity	1,789,001	1,803,569	1,345,514	103,058	(3,252,141)	1,789,001
Total liabilities and stockholders equity	\$ 1,825,209	\$ 4,012,333	\$ 1,876,736	\$ 396,057	\$ (4,017,367)	\$ 4,092,968

Table of Contents**Condensed Consolidating Statement of Operations for the Three Months Ended March 31, 2007
(in thousands):**

	Guarantor Parent Company	Issuing Subsidiary	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating and Eliminating Adjustments	Consolidated
Revenues:						
Service revenues	\$	\$ 292,532	\$ 28,343	\$ 5,934	\$	\$ 326,809
Equipment revenues		67,457	3,452	1,226	(9,522)	62,613
Other revenues		13	13,028		(13,041)	
Total revenues		360,002	44,823	7,160	(22,563)	389,422
Operating expenses:						
Cost of service (exclusive of items shown separately below)		(88,427)	(12,448)	(3,102)	13,028	(90,949)
Cost of equipment		(107,514)	(9,711)	(4,779)	9,522	(112,482)
Selling and marketing	(8)	(39,553)	(6,597)	(2,402)		(48,560)
General and administrative	(321)	(55,028)	(8,692)	(1,171)	13	(65,199)
Depreciation and amortization	(23)	(60,864)	(6,006)	(1,907)		(68,800)
Total operating expenses	(352)	(351,386)	(43,454)	(13,361)	22,563	(385,990)
Net gain (loss) on sale of wireless licenses and disposal of operating assets		(311)	1,251			940
Operating income (loss)	(352)	8,305	2,620	(6,201)		4,372
Minority interests in consolidated subsidiaries		(180)			1,700	1,520
Equity in net loss of consolidated subsidiaries	(7,781)	(24,483)			32,264	
Interest income	10	21,179	176	376	(16,456)	5,285
Interest expense		(25,410)	(8,331)	(9,211)	16,456	(26,496)
Other expense, net		(625)	(12)			(637)
Loss before income taxes	(8,123)	(21,214)	(5,547)	(15,036)	33,964	(15,956)
Income tax (expense) benefit		13,433	(5,600)			7,833
Net loss	\$ (8,123)	\$ (7,781)	\$ (11,147)	\$ (15,036)	\$ 33,964	\$ (8,123)

Table of Contents**Condensed Consolidating Statement of Operations for the Three Months Ended March 31, 2006
(in thousands):**

	Guarantor Parent Company	Issuing Subsidiary	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating and Eliminating Adjustments	Consolidated
Revenues:						
Service revenues	\$	\$ 214,318	\$ 1,522	\$	\$	\$ 215,840
Equipment revenues		50,253	1,399		(804)	50,848
Other revenues		52	9,557		(9,609)	
Total revenues		264,623	12,478		(10,413)	266,688
Operating expenses:						
Cost of service (exclusive of items shown separately below)		(62,671)	(2,090)		9,557	(55,204)
Cost of equipment		(56,489)	(3,201)		804	(58,886)
Selling and marketing		(26,159)	(2,943)			(29,102)
General and administrative	(1,010)	(43,657)	(4,967)		52	(49,582)
Depreciation and amortization	(30)	(53,350)	(656)			(54,036)
Total operating expenses	(1,040)	(242,326)	(13,857)		10,413	(246,810)
Operating income (loss)	(1,040)	22,297	(1,379)			19,878
Minority interests in consolidated subsidiaries		(75)				(75)
Equity in net income (loss) of consolidated subsidiaries	18,756	(6,176)			(12,580)	
Interest income	8	5,250	38		(1,102)	4,194
Interest expense		(7,431)	(1,102)		1,102	(7,431)
Other income (expense), net		537	(2)			535
Income (loss) before income taxes and cumulative effect of change in accounting principle	17,724	14,402	(2,445)		(12,580)	17,101
Income tax (expense) benefit		3,731	(3,731)			
Income (loss) before cumulative effect of change in accounting principle	17,724	18,133	(6,176)		(12,580)	17,101
Cumulative effect of change in accounting principle		623				623

Edgar Filing: LEAP WIRELESS INTERNATIONAL INC - Form 10-Q

Net income (loss)	\$ 17,724	\$ 18,756	\$ (6,176)	\$ (12,580)	\$ 17,724
-------------------	-----------	-----------	------------	-------------	-----------

Table of Contents**Condensed Consolidating Statement of Cash Flows for the Three Months Ended March 31, 2007
(in thousands):**

	Guarantor Parent Company	Issuing Subsidiary	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating and Eliminating Adjustments	Consolidated
Operating activities:						
Net cash provided by (used in) operating activities	\$ (589)	\$ 31,787	\$ (9,399)	\$ (16,899)	\$	\$ 4,900
Investing activities:						
Purchases of and changes in prepayments for property and equipment		(112,948)	(3,288)	(8,092)		(124,328)
Purchases of and deposits for wireless licenses			(438)	15		(423)
Proceeds from sale of wireless licenses			9,500			9,500
Purchases of investments		(42,727)				(42,727)
Sales and maturities of investments		84,293				84,293
Investments in and advances to affiliates and consolidated subsidiaries	(4,365)	(4,706)			4,365	(4,706)
Other	515	(2)	(146)	735		1,102
Net cash provided by (used in) investing activities	(3,850)	(76,090)	5,628	(7,342)	4,365	(77,289)
Financing activities:						
Issuance of related party debt		(17,000)			17,000	
Proceeds from related party debt			15,000	2,000	(17,000)	
Repayment of long-term debt		(2,250)				(2,250)
Payment of debt issuance costs		(866)		(15)		(881)
Capital contributions, net	4,365	4,365			(4,365)	4,365
Net cash provided by (used in) financing activities	4,365	(15,751)	15,000	1,985	(4,365)	1,234
Net increase (decrease) in cash and cash equivalents	(74)	(60,054)	11,229	(22,256)		(71,155)
	206	318,290	13,052	43,391		374,939

Cash and cash equivalents at
beginning of period

Cash and cash equivalents at end of period	\$	132	\$	258,236	\$	24,281	\$	21,135	\$	303,784
---	----	-----	----	---------	----	--------	----	--------	----	---------

Table of Contents**Condensed Consolidating Statement of Cash Flows for the Three Months Ended March 31, 2006
(in thousands):**

	Guarantor Parent Company	Issuing Subsidiary	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating and Eliminating Adjustments	Consolidated
Operating activities:						
Net cash provided by operating activities	\$ 270	\$ 34,752	\$ 3,268		\$	\$ 38,290
Investing activities:						
Purchases of and changes in prepayments for property and equipment		(28,328)	(27,993)			(56,321)
Purchases of and deposits for wireless licenses			(91)			(91)
Purchases of investments		(46,865)				(46,865)
Sales and maturities of investments		72,657				72,657
Investments in and advances to affiliates and consolidated subsidiaries	(233)	(2,002)			2,235	
Other	(299)	(1)	250			(50)
Net cash used in investing activities	(532)	(4,539)	(27,834)		2,235	(30,670)
Financing activities:						
Issuance of related party debt		(34,750)			34,750	
Proceeds from related party debt			34,750		(34,750)	
Repayment of long-term debt		(1,527)				(1,527)
Payment of debt issuance costs		(91)				(91)
Capital contributions, net	233	233	2,670		(2,235)	901
Net cash provided by (used in) financing activities	233	(36,135)	37,420		(2,235)	(717)
Net increase (decrease) in cash and cash equivalents	(29)	(5,922)	12,854			6,903
Cash and cash equivalents at beginning of period	46	291,456	1,571			293,073
Cash and cash equivalents at end of period	\$ 17	\$ 285,534	\$ 14,425		\$	\$ 299,976

Table of Contents

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

As used in this report, unless the context suggests otherwise, the terms we, our, ours, and us refer to Leap Wireless International, Inc., or Leap, and its subsidiaries, including Cricket Communications, Inc., or Cricket, and Alaska Native Broadband 1 License, LLC, or ANB 1 License. Leap, Cricket and ANB 1 License and their subsidiaries are sometimes collectively referred to herein as the Company. Unless otherwise specified, information relating to population and potential customers, or POPs, is based on 2007 population estimates provided by Claritas Inc.

The following information should be read in conjunction with the unaudited condensed consolidated financial statements and notes thereto included in Item 1 of this Quarterly Report and the audited consolidated financial statements and notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the year ended December 31, 2006 filed with the Securities and Exchange Commission, or SEC, on March 1, 2007.

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 identify most forward-looking statements by forward-looking words such as believe, think, may, could, will, estimate, continue, anticipate, intend, seek, plan, expect, or 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 or implied in 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;

changes in economic conditions that could adversely affect the market for wireless services;

the impact of competitors' initiatives;

our ability to successfully implement product offerings and execute market expansion plans;

delays in our market expansion plans resulting from any difficulties in funding such expansion through cash from operations, our revolving credit facility or additional capital, delays in the availability of network equipment and handsets for the AWS spectrum we acquired in Auction #66, or delays by existing U.S. government and other private sector wireless operations in clearing the AWS spectrum, some of which users are permitted to continue using the spectrum for several years;

our ability to attract, motivate and retain an experienced workforce;

our ability to comply with the covenants in our senior secured credit facilities, indenture and any future credit agreement, indenture or similar instrument;

failure of our network or information technology systems to perform according to expectations; and

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

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

Table of Contents

Overview

We are a wireless communications carrier that offers digital wireless service in the U.S. under the Cricket® and Jump Mobile® brands. Our Cricket service offers customers unlimited wireless service in their Cricket service area for a flat monthly rate without requiring a fixed-term contract or credit check. Our Jump Mobile service offers customers a per-minute prepaid wireless service.

Cricket and Jump Mobile services are offered by Cricket, a wholly owned subsidiary of Leap, and ANB 1 License, an indirect wholly owned subsidiary of Leap. Cricket and Jump Mobile services are also offered in Oregon by LCW Wireless Operations, LLC, or LCW Operations, a designated entity under FCC regulations. Cricket owns an indirect 73.3% non-controlling interest in LCW Operations through a 73.3% non-controlling interest in LCW Wireless, LLC, or LCW Wireless. Cricket also owns an 82.5% non-controlling interest in Denali Spectrum, LLC, or Denali, which participated in the FCC's auction for Advanced Wireless Service licenses, or Auction #66, as a designated entity through its wholly owned subsidiary, Denali Spectrum License, LLC, or Denali License.

On March 5, 2007, Cricket acquired the remaining 25% of the membership interests in Alaska Native Broadband 1, LLC, or ANB 1, following Alaska Native Broadband, LLC's exercise of its option to sell its entire 25% controlling interest in ANB 1 to Cricket for \$4.7 million. As a result of the acquisition, ANB 1 and its wholly owned subsidiary, ANB 1 License, became direct and indirect wholly owned subsidiaries, respectively, of Cricket.

At March 31, 2007, Cricket and Jump Mobile services were offered in 22 states and had approximately 2,548,000 customers. As of March 31, 2007, we and LCW Operations owned, and Denali License was named the winning bidder in Auction #66 for, wireless licenses covering an aggregate of 184.2 million POPs (adjusted to eliminate duplication from overlapping licenses), and the combined network footprint in our operating markets covered approximately 48 million POPs. On April 30, 2007, the FCC granted Denali License the wireless license that it won in Auction #66. The licenses we purchased in Auction #66, together with the existing licenses we own, provide 20MHz of coverage and the opportunity to offer enhanced data services in almost all markets in which we currently operate or are building out. If Denali License were to make available to us certain of its spectrum, we would have 20MHz of coverage in all markets in which we currently operate or are building out.

We are currently building out and expect to launch Cricket service in Rochester, New York and areas in North and South Carolina by mid-2007. We anticipate that our combined network footprint will cover approximately 51 million POPs upon the launch of these markets.

In addition to the 51 million POPs we expect to cover with our combined network footprint by mid-2007, we estimate that we and Denali License hold licenses in markets that cover up to approximately 85 million additional POPs that are suitable for Cricket service. We expect that we and Denali License will offer Cricket service to a substantial majority of these additional POPs over time, with build-outs expected to commence in 2007 and a significant number of markets expected to be launched in 2008 and 2009. We and Denali License may also develop some of the licenses covering these additional POPs through partnerships with others.

Large-scale construction projects for the build-out of our new markets will require significant capital expenditures and may suffer cost overruns. In addition, we will experience higher operating expenses as we build out and after we launch service in new markets. Any such significant capital expenditures or increased operating expenses would negatively impact our earnings, operating income before depreciation and amortization, or OIBDA, and free cash flow for the periods in which we incur such costs.

We continue to seek additional opportunities to enhance our current market clusters and expand into new geographic markets by participating in FCC spectrum auctions, acquiring spectrum and related assets from third parties, and/or participating in new partnerships or joint ventures. We also expect to continue to look for opportunities to optimize the value of our spectrum portfolio. Because some of the licenses that we and Denali License hold include large regional areas covering both rural and metropolitan communities, we and Denali License may sell some of this spectrum and pursue the deployment of alternative products or services in portions of this spectrum.

Our principal sources of liquidity are our existing unrestricted cash, cash equivalents and short-term investments, cash generated from operations, and cash available from borrowings under our \$200 million revolving

Table of Contents

credit facility, which was undrawn at March 31, 2007. We may also generate liquidity through capital market transactions or the sale of assets that are not material to or are not required for the ongoing operation of our business. See Liquidity and Capital Resources below.

Results of Operations**Operating Items**

The following table summarizes operating data for the Company's consolidated operations (in thousands, except percentages):

	Three Months Ended March 31,					
	2007	% of 2007 Service Revenues	2006	% of 2006 Service Revenues	Change from Prior Year	
					Dollars	Percent
Revenues:						
Service revenues	\$ 326,809		\$ 215,840		\$ 110,969	51.4%
Equipment revenues	62,613		50,848		11,765	23.1%
Total revenues	389,422		266,688		122,734	46.0%
Operating expenses:						
Cost of service (exclusive of items shown separately below)	90,949	27.8%	55,204	25.6%	35,745	64.8%
Cost of equipment	112,482	34.4%	58,886	27.3%	53,596	91.0%
Selling and marketing	48,560	14.9%	29,102	13.5%	19,458	66.9%
General and administrative	65,199	20.0%	49,582	23.0%	15,617	31.5%
Depreciation and amortization	68,800	21.1%	54,036	25.0%	14,764	27.3%
Total operating expenses	385,990	118.1%	246,810	114.3%	139,180	56.4%
Net gain on sale of wireless licenses and disposal of operating assets	940	0.3%			940	100.0%
Operating income	\$ 4,372	1.3%	\$ 19,878	9.2%	\$ (15,506)	(78.0)%

The following table summarizes customer activity:

	2007	2006	Change	
			Amount	Percent
For the Three Months Ended March 31:				
Gross customer additions	565,055	278,370	286,685	103.0%
Net customer additions	318,346	110,409	207,937	188.3%

Weighted average number of customers	2,393,161	1,718,349	674,812	39.3%
<u>As of March 31:</u>				
Total customers	2,548,172	1,778,704	769,468	43.3%

Three Months Ended March 31, 2007 Compared to Three Months Ended March 31, 2006

Service revenues increased \$111.0 million, or 51.4%, for the three months ended March 31, 2007 compared to the corresponding period of the prior year. This increase resulted from the 39.3% increase in average total customers and an 8.7% increase in average monthly revenues per customer. The increase in average revenues per customer was due primarily to the continued increase in customer adoption of our higher-end service plans.

Equipment revenues increased \$11.8 million, or 23.1%, for the three months ended March 31, 2007 compared to the corresponding period of the prior year. An increase of 93.5% in handset sales volume was largely offset by lower net revenue per handset sold as a result of the elimination of activation fees for new customers purchasing

Table of Contents

equipment and an increase in channel compensation costs associated with our expansion of exclusive indirect distribution partners.

Cost of service increased \$35.7 million, or 64.8%, for the three months ended March 31, 2007 compared to the corresponding period of the prior year. As a percentage of service revenues, cost of service increased to 27.8% from 25.6% in the prior year period. Network infrastructure costs increased by 2.4% of service revenues due primarily to lease costs and network transport costs associated with our new markets. Variable product costs increased by 0.6% of service revenues due to increased customer usage of our value-added services. Partially offsetting these increases was a 0.8% decrease in labor and related costs as a percentage of service revenues due to the increase in service revenues and consequent benefits of scale.

Cost of equipment increased \$53.6 million, or 91.0%, for the three months ended March 31, 2007 compared to the corresponding period of the prior year. This increase was primarily attributable to the 93.5% increase in handset sales volume.

Selling and marketing expenses increased \$19.5 million, or 66.9%, for the three months ended March 31, 2007 compared to the corresponding period of the prior year. As a percentage of service revenues, such expenses increased to 14.9% from 13.5% in the prior year period. This increase was due to an increase in media and advertising costs of 1.4% of service revenues that was attributable to our new market launches.

General and administrative expenses increased \$15.6 million, or 31.5%, for the three months ended March 31, 2007 compared to the corresponding period of the prior year. As a percentage of service revenues, such expenses decreased to 20.0% from 23.0% in the prior year period. This decrease was primarily due to the increase in service revenues and consequent benefits of scale.

Depreciation and amortization expense increased \$14.8 million, or 27.3%, for the three months ended March 31, 2007 compared to the corresponding period of the prior year. The increase in the dollar amount of depreciation and amortization expense was due primarily to the build-out of our new markets and the improvement and expansion of our existing markets. As a percentage of service revenues, such expenses decreased slightly as compared to the corresponding period of the prior year.

Non-Operating Items

The following tables summarize non-operating data for the Company's consolidated operations (in thousands).

	Three Months Ended March 31,		
	2007	2006	Change
Minority interests in consolidated subsidiaries	\$ 1,520	\$ (75)	\$ 1,595
Interest income	5,285	4,194	1,091
Interest expense	(26,496)	(7,431)	(19,065)
Other income (expense), net	(637)	535	(1,172)
Income tax benefit	7,833		7,833

Three Months Ended March 31, 2007 Compared to Three Months Ended March 31, 2006

Minority interests in consolidated subsidiaries primarily reflects the share of net losses allocated to the other members of certain consolidated entities.

Interest income increased \$1.1 million for the three months ended March 31, 2007 compared to the corresponding period of the prior year. This increase was primarily due to the increase in average interest rates during the three months ended March 31, 2007 compared to the corresponding period of the prior year.

Interest expense increased \$19.1 million for the three months ended March 31, 2007 compared to the corresponding period of the prior year. The increase in interest expense resulted primarily from the increase in the amount of the term loan under our amended and restated senior secured credit agreement by approximately \$307 million during the second quarter of 2006 and our issuance of \$750 million of unsecured senior notes in October 2006. We capitalized \$10.7 million of interest during the three months ended March 31, 2007 compared to

Table of Contents

\$4.4 million during the corresponding period of the prior year. We capitalize interest costs associated with our wireless licenses and property and equipment during the build-out of new markets. The amount of such capitalized interest depends on the carrying values of the licenses and property and equipment involved in those markets and the duration of the build-out. We expect capitalized interest to continue to be significant during the build-out of our planned new markets during the remainder of 2007 and beyond. See *Liquidity and Capital Resources* below.

During the three months ended March 31, 2007, we recorded an income tax benefit of \$7.8 million compared to no income tax expense for the three months ended March 31, 2006. During fiscal 2007, we expect to utilize deferred tax assets recorded in fresh-start reporting. The release of valuation allowance associated with the reversal of deferred tax assets recorded in fresh-start reporting is recorded as a reduction of goodwill rather than as a reduction of income tax expense. As a result, we expect that we will recognize income tax expense for 2007, despite the fact that we record a full valuation allowance on our deferred tax assets. We estimate that our 2007 annual effective tax rate will be 43.6%, which is higher than the statutory tax rate due to permanent items not deductible for tax purposes. We applied this estimate of our annual effective tax rate for 2007 to our ordinary pre-tax loss for the first quarter to arrive at an income tax benefit for the quarter. The sale of non-operating wireless licenses during the quarter resulted in a \$1.6 million reduction to our wireless license deferred tax liability, and the acquisition of the remaining interest in ANB 1 resulted in \$0.5 million of tax expense. Both of these items netted to an income tax benefit of \$1.1 million, which was recorded as a discrete item during the first quarter of 2007. We expect to pay only minimal taxes for fiscal 2007.

Performance Measures

In managing our business and assessing our financial performance, management supplements the information provided by financial statement measures with several customer-focused performance metrics that are widely used in the telecommunications industry. These metrics include average revenue per user per month (ARPU), which measures service revenue per customer; cost per gross customer addition (CPGA), which measures the average cost of acquiring a new customer; cash costs per user per month (CCU), which measures the non-selling cash cost of operating our business on a per customer basis; and churn, which measures turnover in our customer base. CPGA and CCU are non-GAAP financial measures. A non-GAAP financial measure, within the meaning of Item 10 of Regulation S-K promulgated by the SEC, is a numerical measure of a company's financial performance or cash flows that (a) excludes amounts, or is subject to adjustments that have the effect of excluding amounts, that are included in the most directly comparable measure calculated and presented in accordance with generally accepted accounting principles in the condensed consolidated balance sheets, condensed consolidated statements of operations or condensed consolidated statements of cash flows; or (b) includes amounts, or is subject to adjustments that have the effect of including amounts, that are excluded from the most directly comparable measure so calculated and presented. See

Reconciliation of Non-GAAP Financial Measures below for a reconciliation of CPGA and CCU to the most directly comparable GAAP financial measures.

ARPU is service revenue divided by the weighted-average number of customers, divided by the number of months during the period being measured. Management uses ARPU to identify average revenue per customer, to track changes in average customer revenues over time, to help evaluate how changes in our business, including changes in our service offerings and fees, affect average revenue per customer, and to forecast future service revenue. In addition, ARPU provides management with a useful measure to compare our subscriber revenue to that of other wireless communications providers. We believe investors use ARPU primarily as a tool to track changes in our average revenue per customer and to compare our per customer service revenues to those of other wireless communications providers. Other companies may calculate this measure differently.

CPGA is selling and marketing costs (excluding applicable share-based compensation expense included in selling and marketing expense), and equipment subsidy (generally defined as cost of equipment less equipment revenue), less the net loss on equipment transactions unrelated to initial customer acquisition, divided by the total number of gross new

customer additions during the period being measured. The net loss on equipment transactions unrelated to initial customer acquisition includes the revenues and costs associated with the sale of handsets to existing customers as well as costs associated with handset replacements and repairs (other than warranty costs which are the responsibility of the handset manufacturers). We deduct customers who do not pay their first monthly bill from our gross customer additions, which tends to increase CPGA because we incur the costs associated with

Table of Contents

this customer without receiving the benefit of a gross customer addition. Management uses CPGA to measure the efficiency of our customer acquisition efforts, to track changes in our average cost of acquiring new subscribers over time, and to help evaluate how changes in our sales and distribution strategies affect the cost-efficiency of our customer acquisition efforts. In addition, CPGA provides management with a useful measure to compare our per customer acquisition costs with those of other wireless communications providers. We believe investors use CPGA primarily as a tool to track changes in our average cost of acquiring new customers and to compare our per customer acquisition costs to those of other wireless communications providers. Other companies may calculate this measure differently.

CCU is cost of service and general and administrative costs (excluding applicable share-based compensation expense included in cost of service and general and administrative expense) plus net loss on equipment transactions unrelated to initial customer acquisition (which includes the gain or loss on sale of handsets to existing customers and costs associated with handset replacements and repairs (other than warranty costs which are the responsibility of the handset manufacturers)), divided by the weighted-average number of customers, divided by the number of months during the period being measured. CCU does not include any depreciation and amortization expense. Management uses CCU as a tool to evaluate the non-selling cash expenses associated with ongoing business operations on a per customer basis, to track changes in these non-selling cash costs over time, and to help evaluate how changes in our business operations affect non-selling cash costs per customer. In addition, CCU provides management with a useful measure to compare our non-selling cash costs per customer with those of other wireless communications providers. We believe investors use CCU primarily as a tool to track changes in our non-selling cash costs over time and to compare our non-selling cash costs to those of other wireless communications providers. Other companies may calculate this measure differently.

Churn, which measures customer turnover, is calculated as the net number of customers that disconnect from our service divided by the weighted-average number of customers divided by the number of months during the period being measured. Customers who do not pay their first monthly bill are deducted from our gross customer additions in the month that they are disconnected; as a result, these customers are not included in churn. Management uses churn to measure our retention of customers, to measure changes in customer retention over time, and to help evaluate how changes in our business affect customer retention. In addition, churn provides management with a useful measure to compare our customer turnover activity to that of other wireless communications providers. We believe investors use churn primarily as a tool to track changes in our customer retention over time and to compare our customer retention to that of other wireless communications providers. Other companies may calculate this measure differently.

The following table shows metric information for the three months ended March 31, 2007 and 2006:

	Three Months Ended March 31,	
	2007	2006
ARPU	\$ 45.52	\$ 41.87
CPGA	\$ 166	\$ 130
CCU	\$ 21.16	\$ 19.57
Churn	3.4%	3.3%

Table of Contents***Reconciliation of Non-GAAP Financial Measures***

We utilize certain financial measures, as described above, that are widely used in the industry but that are not calculated based on GAAP. Certain of these financial measures are considered non-GAAP financial measures within the meaning of Item 10 of Regulation S-K promulgated by the SEC.

CPGA The following table reconciles total costs used in the calculation of CPGA to selling and marketing expense, which we consider to be the most directly comparable GAAP financial measure to CPGA (in thousands, except gross customer additions and CPGA):

	Three Months Ended March 31,	
	2007	2006
Selling and marketing expense	\$ 48,560	\$ 29,102
Less share-based compensation expense included in selling and marketing expense	(1,001)	(327)
Plus cost of equipment	112,482	58,886
Less equipment revenue	(62,613)	(50,848)
Less net loss on equipment transactions unrelated to initial customer acquisition	(3,503)	(521)
Total costs used in the calculation of CPGA	\$ 93,925	\$ 36,292
Gross customer additions	565,055	278,370
CPGA	\$ 166	\$ 130

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

	Three Months Ended March 31,	
	2007	2006
Cost of service	\$ 90,949	\$ 55,204
Plus general and administrative expense	65,199	49,582
Less share-based compensation expense included in cost of service and general and administrative expense	(7,742)	(4,399)
Plus net loss on equipment transactions unrelated to initial customer acquisition	3,503	521
Total costs used in the calculation of CCU	\$ 151,909	\$ 100,908
Weighted-average number of customers	2,393,161	1,718,349
CCU	\$ 21.16	\$ 19.57

Liquidity and Capital Resources

Overview

Our principal sources of liquidity are our existing unrestricted cash, cash equivalents and short-term investments, cash generated from operations and cash available under our \$200 million revolving credit facility, which was undrawn at March 31, 2007. We had a total of \$329.2 million in unrestricted cash, cash equivalents and short-term investments at March 31, 2007. We may also generate liquidity through capital markets transactions or by selling assets that are not material to or are not required for our ongoing operations. We believe that these sources of liquidity are sufficient to meet the operating and capital requirements for our current business operations and for the expansion of our business through the build-out of new markets and other activities. If we required additional financing in the capital markets that we could not obtain on terms we found acceptable, we would likely be required to reduce or forgo our investments in business expansion opportunities.

Table of Contents

Looking forward, we may raise significant additional capital over time, as market conditions permit, to enable us to take advantage of business expansion opportunities. In the near term, we are considering raising additional debt financing for general corporate purposes and the build-out of new markets.

Cash Flows

Net cash provided by operating activities was \$4.9 million during the three months ended March 31, 2007 compared to \$38.3 million during the three months ended March 31, 2006. This decrease was primarily attributable to the decrease in our income before income taxes of \$33.1 million.

Net cash used in investing activities was \$77.3 million during the three months ended March 31, 2007, which included the effects of the following transactions:

During the three months ended March 31, 2007, we and LCW Operations purchased \$131.7 million of property and equipment for the build-out of our new markets and the expansion and improvement of our existing markets.

During March 2007, Cricket acquired the remaining 25% of the membership interests in ANB 1, following Alaska Native Broadband, LLC's exercise of its option to sell its entire 25% controlling interest in ANB 1 to Cricket, for \$4.7 million.

During January 2007, we completed the sale of three wireless licenses that we were not using to offer commercial service for an aggregate sales price of \$9.5 million.

Net cash provided by financing activities was \$1.2 million during the three months ended March 31, 2007, which included the effects of the following transactions:

During the three months ended March 31, 2007, we issued common stock resulting in net proceeds of \$4.4 million.

During March 2007, we made a payment of \$2.3 million on our \$895.5 million term loan.

Senior Secured Credit Facilities

On March 15, 2007, we entered into an agreement amending our senior secured credit facility. The new facility under our amended and restated senior secured credit agreement, or the Credit Agreement, consists of a six year \$895.5 million term loan and an undrawn \$200 million revolving credit facility. The new term loan bears interest at the London Interbank Offered Rate (LIBOR) plus 2.25% or the bank base rate plus 1.25%, as selected by Cricket, with the rate subject to adjustment based on Leap's corporate family debt rating. These new interest rates represent a reduction of 50 basis points from the rates applicable to the term loan prior to the amendment. Outstanding borrowings under the new term loan must be repaid in 22 quarterly payments of \$2.25 million each, followed by four quarterly payments of \$211.5 million each, which commence September 30, 2012. If the new term loan is prepaid in connection with a re-pricing transaction prior to March 15, 2008, a prepayment premium in the amount of 1.0% of the principal amount prepaid will be payable by Cricket.

Outstanding borrowings under the revolving credit facility are due in June 2011. The commitment of the lenders under the revolving credit facility may be reduced in the event mandatory prepayments are required under the Credit Agreement. Borrowings under the revolving credit facility would currently accrue interest at LIBOR plus 2.0% or the

bank base rate plus 1.0%, as selected by Cricket, with the rate subject to adjustment based on our consolidated senior secured leverage ratio.

LCW Operations has a senior secured credit agreement consisting of two term loans for \$40 million in the aggregate. The loans bear interest at LIBOR plus the applicable margin ranging from 2.7% to 6.3%. At March 31, 2007, the effective interest rate on the term loans was 9.6%, and the outstanding indebtedness was \$40 million. In January 2007, LCW Operations entered into an interest rate cap agreement which effectively caps the three-month LIBOR at 7.0% on \$20 million of its outstanding borrowings. The obligations under the loans are guaranteed by LCW Wireless and LCW Wireless License, LLC, a wholly owned subsidiary of LCW Operations (and are non-recourse to Leap, Cricket and their other subsidiaries). Outstanding borrowings under the term loans must be repaid in varying quarterly installments starting in June 2008, with an aggregate final payment of \$24.5 million due in June 2011.

Table of Contents

Senior Notes

In October 2006, Cricket issued \$750 million of unsecured senior notes due in 2014. The notes bear interest at the rate of 9.375% per year, payable semi-annually in cash in arrears beginning in May 2007. The notes are guaranteed on an unsecured senior basis by Leap and each of its existing and future domestic subsidiaries (excluding Cricket, which is the issuer of the notes, and LCW Wireless and Denali and their respective subsidiaries) that guarantees indebtedness for money borrowed of Leap, Cricket or any subsidiary guarantor. The notes and the guarantees are Leap's, Cricket's and the guarantors' general senior unsecured obligations and rank equally in right of payment with all of Leap's, Cricket's and the guarantors' existing and future 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 Credit Agreement, to the extent of the value of the assets securing such obligations, as well as to future liabilities of Leap's and Cricket's subsidiaries that are not guarantors and of LCW Wireless and Denali and their respective subsidiaries. In addition, the notes and the guarantees are senior in right of payment to any of Leap's, Cricket's and the guarantors' future subordinated indebtedness. On March 23, 2007, we filed a registration statement with the SEC offering to exchange the notes for identical notes that have been registered with the SEC. On April 19, 2007, we commenced the exchange offer for the notes. The exchange offer expires on May 16, 2007, unless we extend the offer.

Capital Expenditures and Other Asset Acquisitions and Dispositions

Capital Expenditures

During the three months ended March 31, 2007, we and LCW Operations made approximately \$132 million in capital expenditures. These capital expenditures were primarily for: (i) expansion and improvement of our existing wireless network, (ii) the build-out of our new markets, (iii) costs incurred by LCW Operations in connection with the expansion and improvement of its wireless network, and (iv) expenditures for 1xEV-DO technology.

We and LCW Operations currently expect to make between \$280 million and \$320 million in capital expenditures, excluding capitalized interest and expenditures related to markets acquired in Auction #66, for the year ending December 31, 2007. We currently expect that our capital expenditures related to the build-out of markets we and Denali License acquired in Auction #66 will be approximately \$110 million during 2007, excluding capitalized interest.

We expect that we and Denali License (which we expect will offer Cricket service) will build out markets for licenses acquired in Auction #66 beginning in 2007 and that a significant number of markets will be launched in 2008 and 2009.

Other Acquisitions and Dispositions

In January 2007, we completed the sale of three wireless licenses that we were not using to offer commercial service for an aggregate sales price of \$9.5 million, resulting in a net gain of \$1.3 million.

Off-Balance Sheet Arrangements

We had no material off-balance sheet arrangements at March 31, 2007.

Recent Accounting Pronouncements

Edgar Filing: LEAP WIRELESS INTERNATIONAL INC - Form 10-Q

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements (SFAS 157), which defines fair value, establishes a framework for measuring fair value in accounting principles generally accepted in the United States of America and expands disclosure about fair value measurements. We will be required to adopt SFAS 157 in the first quarter of 2008. We are currently evaluating what impact, if any, SFAS 157 will have on our consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115 (SFAS 159), which permits all entities to choose, at specified election dates, to measure eligible items at fair value and establishes presentation and disclosure

Table of Contents

requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. We will be required to adopt SFAS 159 in the first quarter of 2008. We are currently evaluating what impact, if any, SFAS 159 will have on our consolidated financial statements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Interest Rate Risk. As of March 31, 2007, we had approximately \$893 million in outstanding floating rate debt under our Credit Agreement. The terms of our Credit Agreement require us to enter into interest rate swap agreements in a sufficient amount so that at least 50% of our total outstanding indebtedness for borrowed money bears interest at a fixed rate. We have entered into interest rate swap agreements with respect to \$355 million of our debt. These swap agreements effectively fix the interest rate on \$250 million of our senior secured indebtedness at 6.7% and \$105 million of such indebtedness at 6.8% through June 2007 and 2009, respectively. As of March 31, 2007, LCW Operations had \$40 million in outstanding floating rate debt consisting of two term loans. In January 2007, LCW Operations entered into an interest rate cap agreement which effectively caps the three-month LIBOR at 7.0% on \$20 million of its outstanding borrowings. Our \$750 million of unsecured senior notes bear interest at a fixed rate of 9.375% per year.

As of March 31, 2007, net of the effect of the interest rate swap agreements, our outstanding floating rate indebtedness totaled approximately \$578 million. The primary base interest rate is three-month LIBOR. Assuming the outstanding balance on our floating rate indebtedness remains constant over a year, a 100 basis point increase in the interest rate would decrease pre-tax income and cash flow, net of the effect of the interest rate swap agreements, by approximately \$5.8 million. As of March 31, 2007, approximately 66% of our indebtedness for borrowed money accrued interest at a fixed rate. The fixed rate debt consisted of our \$750 million of unsecured senior notes and \$355 million of senior secured debt covered by interest rate swap agreements.

Hedging Policy. Our policy is to maintain interest rate hedges to the extent that we believe them to be fiscally prudent, and as required by our credit agreements. We do not currently engage in any hedging activities against foreign currency exchange rates or for speculative purposes.

Item 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

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

Management, with participation by our CEO and CFO, has designed our disclosure controls and procedures to provide reasonable assurance of achieving desired objectives. As required by SEC Rule 13a-15(b), in connection with filing this Quarterly Report on Form 10-Q, management conducted an evaluation, with the participation of our CEO and our CFO, of the effectiveness of the design and operation of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the Exchange Act. Based upon that evaluation, our CEO and CFO concluded that our disclosure controls and procedures were effective at the reasonable assurance level as of March 31, 2007.

(b) Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the fiscal quarter ended March 31, 2007 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

PART II

OTHER INFORMATION

Item 1. Legal Proceedings.

We are involved in certain legal proceedings that are described in our Annual Report on Form 10-K for the year ended December 31, 2006 filed with the Securities and Exchange Commission, or the SEC, on March 1, 2007. There have been no material developments in the status of those legal proceedings during the three months ended March 31, 2007, except as described below.

Outstanding Bankruptcy Claims

Although our plan of reorganization became effective and we emerged from bankruptcy in August 2004, a tax claim of approximately \$4.9 million Australian dollars asserted by the Australian government against Leap in the U.S. Bankruptcy Court for the Southern District of California in Case Nos. 03-03470-All to 03-035335-All (jointly administered) remained outstanding as of January 1, 2007. We, the Australian government and the trust established in bankruptcy for the benefit of the Leap general unsecured creditors subsequently settled this claim for \$600,000 subject to Bankruptcy Court approval, which was granted. The settlement payment was made from funds set aside and reserved pursuant to the bankruptcy proceedings for payment of allowed bankruptcy claims against Leap.

Patent Litigation

On June 14, 2006, we sued MetroPCS Communications, Inc., or MetroPCS, in the United States District Court for the Eastern District of Texas, Marshall Division, Civil Action No. 2-06H-CV-00240-TJW, for infringement of U.S. Patent No. 6,813,497 *Method for Providing Wireless Communication Services and Network and System for Delivering Same*, issued to us. Our complaint seeks damages and an injunction against continued infringement. On August 3, 2006, MetroPCS (i) answered the complaint, (ii) raised a number of affirmative defenses, and (iii) together with certain related entities (referred to, collectively with MetroPCS, as the MetroPCS entities), counterclaimed against Leap, Cricket, numerous Cricket subsidiaries, ANB 1 License, Denali License, and current and former employees of Leap and Cricket, including Leap CEO Douglas Hutcheson. The countersuit alleges claims for breach of contract, misappropriation, conversion and disclosure of trade secrets, misappropriation of confidential information and breach of confidential relationship, relating to information provided by MetroPCS to such employees, including prior to their employment by Leap, and asks the court to award damages, including punitive damages, impose an injunction enjoining us from participating in Auction #66, impose a constructive trust on our business and assets for the benefit of MetroPCS, and declare that the MetroPCS entities have not infringed U.S. Patent No. 6,813,497 and that such patent is invalid. MetroPCS's claims allege that we and the other counterclaim defendants improperly obtained, used and disclosed trade secrets and confidential information of the MetroPCS entities and breached confidentiality agreements with the MetroPCS entities. Denali License has since been dismissed, without prejudice, as a counterclaim defendant. Based upon our review of the counterclaims, we believe that we have meritorious defenses and intend to vigorously defend against the counterclaims. If the MetroPCS entities were to prevail in their counterclaims, it could have a material adverse effect on our business, financial condition and results of operations. On September 22, 2006, Royal Street Communications, LLC, or Royal Street, an entity affiliated with MetroPCS, filed an action in the United States District Court for the Middle District of Florida, Tampa Division, Civil Action No. 8:06-CV-01754-T-23TBM, seeking a declaratory judgment that Cricket's U.S. Patent No. 6,813,497 *Method for Providing Wireless Communication Services and Network and System for Delivering Same* (the same patent that is the subject of our infringement action against MetroPCS) is invalid and is not being infringed by Royal Street or its PCS systems. On

October 17, 2006, we filed a motion to dismiss the case or, in the alternative, to transfer the case to the Eastern District of Texas. We intend to vigorously defend against these actions.

On August 17, 2006, the Company was served with a complaint filed by certain MetroPCS entities in the Superior Court of the State of California, which names Leap, Cricket, certain of its subsidiaries, and certain current and former employees of Leap and Cricket, including Leap CEO Douglas Hutcheson, as defendants. In the complaint, the MetroPCS entities allege unfair competition, misappropriation of trade secrets, (with respect to the

Table of Contents

individuals sued) intentional and negligent interference with contract, breach of contract, intentional interference with prospective economic advantage and trespass, and ask the court to award damages, including punitive damages, and restitution. In February 2007, the court dismissed the trespass claim, without prejudice, and ordered MetroPCS to amend its complaint to clearly identify which claims are being made against each defendant. Two affiliates of MetroPCS filed a first amended complaint which was also dismissed by the court with leave to file a second amended complaint on or before May 14, 2007. It is unclear whether, if the MetroPCS entities were to prevail in this action, it could have a material adverse effect on the Company's business, financial condition and results of operations. The Company intends to vigorously defend against the claims.

Other

On December 31, 2002, several members of American Wireless Group, LLC, referred to in these financial statements as AWG, filed a lawsuit against various officers and directors of Leap in the Circuit Court of the First Judicial District of Hinds County, Mississippi, referred to herein as the Whittington Lawsuit. Leap purchased certain FCC wireless licenses from AWG and paid for those licenses with shares of Leap stock. The complaint alleges that Leap failed to disclose to AWG material facts regarding a dispute between Leap and a third party relating to that party's claim that it was entitled to an increase in the purchase price for certain wireless licenses it sold to Leap. In their complaint, plaintiffs seek rescission and/or damages according to proof at trial of not less than the aggregate amount paid for the Leap stock (alleged in the complaint to have a value of approximately \$57.8 million in June 2001 at the closing of the license sale transaction), plus interest, punitive or exemplary damages in the amount of not less than three times compensatory damages, and costs and expenses. Plaintiffs contend that the named defendants are the controlling group that was responsible for Leap's alleged failure to disclose the material facts regarding the third party dispute and the risk that the shares held by the plaintiffs might be diluted if the third party was successful with respect to its claim. The defendants in the Whittington Lawsuit filed a motion to compel arbitration or, in the alternative, to dismiss the Whittington Lawsuit. The motion noted that plaintiffs, as members of AWG, agreed to arbitrate disputes pursuant to the license purchase agreement, that they failed to plead facts that show that they are entitled to relief, that Leap made adequate disclosure of the relevant facts regarding the third party dispute and that any failure to disclose such information did not cause any damage to the plaintiffs. The court denied defendants' motion and the defendants have appealed the denial of the motion to the state supreme court.

In a related action to the action described above, in June 2003, AWG filed a lawsuit in the Circuit Court of the First Judicial District of Hinds County, Mississippi, referred to herein as the AWG Lawsuit, against the same individual defendants named in the Whittington Lawsuit. The complaint generally sets forth the same claims made by the plaintiffs in the Whittington Lawsuit. In its complaint, plaintiff seeks rescission and/or damages according to proof at trial of not less than the aggregate amount paid for the Leap stock (alleged in the complaint to have a value of approximately \$57.8 million in June 2001 at the closing of the license sale transaction), plus interest, punitive or exemplary damages in the amount of not less than three times compensatory damages, and costs and expenses. Defendants filed a motion to compel arbitration or, in the alternative, to dismiss the AWG Lawsuit, making arguments similar to those made in their motion to dismiss the Whittington Lawsuit. The motion was denied and the defendants have appealed the ruling to the state supreme court. AWG recently agreed to arbitrate this lawsuit and filed a motion in the Circuit Court seeking to stay the proceeding pending arbitration.

Although Leap is not a defendant in either the Whittington or AWG Lawsuits, several of the defendants have indemnification agreements with Leap. Leap's D&O insurers have not filed a reservation of rights letter and have been paying defense costs. Management believes that the liability, if any, from the AWG and Whittington Lawsuits and the related indemnity claims of the defendants against Leap is not probable or estimable; therefore, no accrual has been made in the Company's condensed consolidated financial statements as of March 31, 2007 related to these contingencies.

In addition to the matters described above, we are often involved in certain other claims arising in the course of business, seeking monetary damages and other relief. The amount of the liability, if any, from such claims cannot currently be reasonably estimated; therefore, no accruals have been made in the Company's condensed consolidated financial statements as of March 31, 2007 for such claims.

Table of Contents

Item 1A. Risk Factors.

There have been no material changes to the Risk Factors described under Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2006 filed with the SEC on March 1, 2007, other than changes to:

the Risk Factor below entitled We Face Increasing Competition Which Could Have a Material Adverse Effect on Demand for the Cricket Service, which has been updated to reflect additional risks related to the competitive landscape for our services;

the Risk Factor below entitled We Expect to Incur Substantial Costs in Connection With the Build-Out of Our New Markets, and Any Delays or Cost Increases in the Build-Out of Our New Markets Could Adversely Affect Our Business, which has been updated to reflect additional risks related to our plans to build out additional markets;

the Risk Factor below entitled Despite Current Indebtedness Levels, We May Incur Substantially More Indebtedness. This Could Further Increase the Risks Associated With Our Leverage, which has been updated to reflect additional risks related to our plans to raise additional indebtedness, including our near term plans to raise additional debt financing for general corporate purposes and the build-out of new markets;

the Risk Factor entitled We and Our Suppliers May Be Subject to Claims of Infringement Regarding Telecommunications Technologies That Are Protected By Patents and Other Intellectual Property Rights, which has been updated to reflect additional risks related to potential infringement claims that could be made against our suppliers; and

the Risk Factor below entitled We May Be Unable to Acquire Additional Spectrum in the Future at a Reasonable Cost or on a Timely Basis, which has been updated to reflect the decision by the FCC to approve the award to Denali License of the license that it won in Auction #66.

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 \$8.1 million for the quarter ended March 31, 2007, \$4.1 million for the year ended December 31, 2006, \$8.4 million and \$49.3 million (excluding reorganization items, net) for the five months ended December 31, 2004 and the seven months ended July 31, 2004, respectively, \$597.4 million for the year ended December 31, 2003 and \$664.8 million for the year ended December 31, 2002. Although we had net income of \$30.0 million for the year ended December 31, 2005, we may not generate profits in the future on a consistent basis, or at all. If we fail to achieve consistent profitability, that failure could have a negative effect on our financial condition.

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

Our growth on a quarter-by-quarter basis has varied substantially in the past. We believe that this uneven growth generally reflects seasonal trends in customer activity, promotional activity, the competition in the wireless telecommunications market, our reduction in spending on capital investments and advertising while we were in bankruptcy, and varying national economic conditions. Our current business plans assume that we will increase our

customer base over time, providing us with increased economies of scale. If we are unable to attract and retain a growing customer base, our current business plans and financial outlook may be harmed.

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

Because we do not require customers to sign fixed-term contracts or pass a credit check, our service is available to a broader customer base than that served by many other wireless providers. As a result, some of our customers may be more likely to terminate service due to an inability to pay than the average industry customer, particularly during economic downturns or during periods of high gasoline prices. Our turnover could also increase if recent

Table of Contents

disruptions in the subprime mortgage market affect the ability of our customers to pay for their service. In addition, our rate of customer turnover may be affected by other factors, including the size of our calling areas, network performance and reliability issues, our handset or service offerings (including the ability of customers to cost-effectively roam onto other wireless networks), customer care concerns, phone number portability and other competitive factors. Our strategies to address customer turnover may not be successful. A high rate of customer turnover would reduce revenues and increase the total marketing expenditures required to attract the minimum number of replacement customers required to sustain our business plan which, in turn, could have a material adverse effect on our business, financial condition and results of operations.

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

In November 2004, we acquired a 75% non-controlling interest in ANB 1, whose wholly owned subsidiary, ANB 1 License, was awarded certain licenses in Auction #58. In March 2007, we acquired the remaining 25% interest in ANB 1. In July 2006, we acquired a 72% non-controlling interest in LCW Wireless, which was awarded a wireless license for the Portland, Oregon market in Auction #58 and to which we contributed, among other things, two wireless licenses in Eugene and Salem, Oregon and related operating assets. In December 2006, we completed the replacement of certain network equipment of a subsidiary of LCW Wireless and, as a result, we now own a 73.3% non-controlling membership interest in LCW Wireless. Both ANB 1 License and LCW Wireless acquired their Auction #58 wireless licenses as very small business designated entities under FCC regulations. In July 2006, we acquired an 82.5% non-controlling interest in Denali, an entity which participated in Auction #66 as a very small business designated entity under FCC regulations. Our participation in these joint ventures is structured as a non-controlling interest in order to comply with FCC rules and regulations. We have agreements with our joint venture partners in LCW Wireless and Denali, and we plan to have similar agreements in connection with any future joint venture arrangements we may enter into, which are intended to allow us to actively participate to a limited extent in the development of the business through the joint venture. However, these agreements do not provide us with control over the business strategy, financial goals, build-out plans or other operational aspects of any such joint venture. The FCC's rules restrict our ability to acquire controlling interests in such entities during the period that such entities must maintain their eligibility as a designated entity, as defined by the FCC. The entities or persons that control the joint ventures may have interests and goals that are inconsistent or different from ours which could result in the joint venture taking actions that negatively impact our business or financial condition. In addition, if any of the other members of a joint venture files for bankruptcy or otherwise fails to perform its obligations or does not manage the joint venture effectively, we may lose our equity investment in, and any present or future opportunity to acquire the assets (including wireless licenses) of, such entity.

The FCC recently implemented rule changes aimed at addressing alleged abuses of its designated entity program, affirmed these changes on reconsideration and sought comment on further rule changes. In that proceeding, the FCC re-affirmed its goals of ensuring that only legitimate small businesses reap the benefits of the program, and that such small businesses are not controlled or manipulated by larger wireless carriers or other investors that do not meet the small business qualification tests. While we do not believe that the FCC's recent rule changes materially affect our current joint ventures with LCW Wireless and Denali, the scope and applicability of these rule changes to such current designated entity structures remains in flux, and parties have already sought further reconsideration or judicial review of these rule changes. In addition, we cannot predict how further rule changes or increased regulatory scrutiny by the FCC flowing from this proceeding will affect our current or future business ventures with designated entities or our participation with such entities in future FCC spectrum auctions.

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

In general, the telecommunications industry is very competitive. Some competitors have announced rate plans substantially similar to Cricket's service plans (and have also introduced products that consumers perceive to be similar to Cricket's service plans) in markets in which we offer wireless service. In addition, Sprint Nextel recently began offering on a trial basis a flat rate unlimited service offering under its Boost brand, which is very similar to the Cricket service, and this new service offering may present additional strong competition in markets in which our

Table of Contents

offerings overlap. Sprint Nextel could expand its Boost service offering into other markets in which we provide service or in which we plan to expand and other carriers may provide similar service plans in these markets. The competitive pressures of the wireless telecommunications market have also caused other carriers to offer service plans with large bundles of minutes of use at low prices which are competing with the predictable and unlimited Cricket calling plans. Some competitors also offer prepaid wireless plans that are being advertised heavily to demographic segments in our current markets and in markets in which we may expand that are strongly represented in Cricket's customer base. These competitive offerings could adversely affect our ability to maintain our pricing and increase or maintain our market penetration and may have a material adverse effect on our financial results. Our competitors may attract more customers because of their stronger market presence and geographic reach. Potential customers may perceive the Cricket service to be less appealing than other wireless plans, which offer more features and options. In addition, existing carriers and potential non-traditional carriers are exploring or have announced the launch of service using new technologies and/or alternative delivery plans.

Many competitors have substantially greater financial and other resources than we have, and we may not be able to compete successfully. Because of their size and bargaining power, our larger competitors may be able to purchase equipment, supplies and services at lower prices than we can. Prior to the launch of a large market in 2006, disruptions by a competitor interfered with our indirect dealer relationships, reducing the number of dealers offering Cricket service during the initial weeks of launch. In addition, some of our competitors are able to offer their customers roaming services on a nationwide basis and at lower rates. We currently offer roaming services on a prepaid basis. As consolidation in the industry creates even larger competitors, any purchasing advantages our competitors have, as well as their bargaining power as wholesale providers of roaming services, may increase. For example, in connection with the offering of our nationwide roaming service, we have encountered problems with certain large wireless carriers in negotiating terms for roaming arrangements that we believe are reasonable, and believe that consolidation has contributed significantly to such carriers' control over the terms and conditions of wholesale roaming services.

We also compete as a wireless alternative to landline service providers in the telecommunications industry. Wireline carriers are also offering unlimited national calling plans and bundled offerings that include wireless and data services. We may not be successful in the long term, or continue to be successful, in our efforts to persuade potential customers to adopt our wireless service in addition to, or in replacement of, their current landline service.

The FCC is pursuing policies designed to increase the number of wireless licenses available in each of our markets. For example, the FCC has adopted rules that allow the partitioning, disaggregation or leasing of PCS and other wireless licenses, and continues to allocate and auction additional spectrum that can be used for wireless services, which may increase the number of our competitors.

Our ability to remain competitive will depend, in part, on our ability to anticipate and respond to various competitive factors and to keep our costs low.

We May Be Unable to Obtain the Roaming 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. We do not have a national network, and we must pay fees to other carriers who provide roaming services to us. We currently have roaming agreements with several other carriers which allow our customers to roam on those carriers' networks. The roaming agreements generally cover voice but not data services, and at least one such agreement 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. Our current and future customers may prefer that we offer roaming services that allow them to make calls automatically when they are outside of their Cricket service area, and we cannot assure you that we will be able to provide such roaming services for our customers in all areas of the U.S., or that we will be able to provide such

services cost effectively. If we are unable to maintain our existing roaming agreements, and purchase wholesale roaming services at reasonable rates, then we may be unable to compete effectively for wireless customers, which may increase our churn and decrease our revenues, which could materially adversely affect our business, financial condition and results of operations.

Table of Contents

We Previously Identified Material Weaknesses in Our Internal Control Over Financial Reporting, and 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 do a comprehensive evaluation of their internal control over financial reporting. To comply with this statute, 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 attest to and report on management's assessment and the effectiveness of internal control over financial reporting. In connection with their evaluations of our disclosure controls and procedures, our Chief Executive Officer, or CEO, and Chief Financial Officer, or CFO, concluded 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. Our independent registered public accounting firm attested and reported that our internal control over financial reporting was not effective as of December 31, 2005. We believe that each of these material weaknesses has now been adequately remediated. Although our management has concluded and our independent registered public accounting firm has attested and reported that our internal control over financial reporting was effective as of December 31, 2006, we cannot assure you that we will not discover other material weaknesses in the future. The existence of one or more material weaknesses could result in errors in our financial statements, and substantial costs and resources may be required to rectify these or other internal control deficiencies. If we cannot produce reliable financial reports, investors could lose confidence in our reported financial information, the market price of Leap's common stock could decline significantly, we may be unable to obtain additional financing to operate and expand our business, and our business and financial condition could be harmed.

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

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

We Expect to Incur Substantial Costs in Connection With the Build-Out of Our New Markets, and Any Delays or Cost Increases in the Build-Out of Our New Markets Could Adversely Affect Our Business.

Our ability to achieve our strategic objectives will depend in part on the successful, timely and cost-effective build-out of the networks associated with newly acquired FCC licenses, including the licenses that we and Denali License acquired in Auction #66 and any licenses that we may acquire from third parties. Large-scale construction projects such as the build-out of our new markets will require significant capital expenditures and may suffer cost-overruns. In addition, we will experience higher operating expenses as we build out and after we launch our service in new markets. Any significant capital expenditures or increased operating expenses, including in connection with the build-out and launch of markets for the licenses that we and Denali License acquired in Auction #66, would negatively impact our earnings and free cash flow for those periods in which we incur such capital expenditures or increased operating expenses. If we are unable to fund the build-out of these new markets with cash generated from

operations or that is otherwise available to us under our \$200 million revolving credit facility, we may be required to raise additional equity capital or incur further indebtedness, which we cannot guarantee would be available to us on acceptable terms, or at all. In addition, the build-out of the networks may be delayed or adversely affected by a variety of factors, uncertainties and contingencies, such as natural disasters, difficulties in obtaining zoning permits

Table of Contents

or other regulatory approvals, our relationships with our joint venture partners, and the timely performance by third parties of their contractual obligations to construct portions of the networks.

The spectrum that was auctioned in Auction #66 currently is used by U.S. federal government and/or incumbent commercial licensees. FCC rules require winning bidders to avoid interfering with these existing users or to clear the incumbent users from the spectrum through specified relocation procedures. We considered the estimated cost and time frame required to clear the spectrum for which we and Denali License were declared the winning bidders in the auction. However, the actual cost of clearing the spectrum may exceed our estimated costs. Furthermore, delays in the distribution and utilization of federal funds to relocate government users, or difficulties in negotiating with incumbent commercial licensees, may extend the date by which the auctioned spectrum can be cleared of existing operations, and thus may also delay the date on which we can launch commercial services using such licensed spectrum. In addition, certain existing government operations are using the Auction #66 spectrum for classified purposes. Although the government has agreed to clear that spectrum to allow the holders to use their AWS licenses in the affected areas, the government is only providing limited information to spectrum holders about these classified uses which creates additional uncertainty about the time at which such spectrum will be available for commercial use.

Although our vendors have announced their intention to manufacture and supply network equipment and handsets that operate in the AWS spectrum bands, network equipment and handsets that support AWS are not presently available. If network equipment and handsets for the AWS spectrum are not made available on a timely basis in the future by our suppliers, our proposed build-outs and launches of new Auction #66 markets could be delayed, which would negatively impact our earnings and cash flows. In addition, if delays in the availability of AWS network equipment and handsets force us to choose a technology platform for our networks other than CDMA, the adoption of such alternative technology solution could have a material adverse effect on our capital expenditures and capital spending plans. Any significant increase in our expected capital expenditures in connection with the build-out and launch of Auction #66 licenses could negatively impact our earnings and free cash flow for those periods in which we incur such capital expenditures.

Any failure to complete the build-out of our new markets on budget or on time could delay the implementation of our clustering and strategic expansion strategies, and could have a material adverse effect on our results of operations and financial condition.

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

We have experienced substantial growth in a relatively short period of time, and we expect to continue to experience growth in the future in our existing and new markets. The management of such growth will require, among other things, continued development of our financial and management controls and management information systems, stringent control of costs, diligent management of our network infrastructure and its growth, increased spending associated with marketing activities and acquisition of new customers, the ability to attract and retain qualified management personnel and the training of new personnel. In addition, continued growth will eventually require the expansion of our billing, customer care and sales systems and platforms, which will require additional capital expenditures and may divert the time and attention of management personnel who oversee any such expansion. Furthermore, the implementation of any such systems or platforms, including 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 or to timely and adequately resolve any such difficulties 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 March 31, 2007, our total outstanding indebtedness under the senior secured credit agreement was \$893 million, and we also had a \$200 million undrawn revolving credit facility (which forms part of our senior secured credit facility). In October 2006, we issued \$750 million in unsecured senior notes. In addition, we expect to raise substantial funds by

Table of Contents

incurring additional indebtedness in the future. Indebtedness under our senior secured credit facility bears interest at a variable rate, but we have entered into interest rate swap agreements with respect to \$355 million of our indebtedness. Our substantial indebtedness could have material consequences. For example, it could:

make it more difficult for us to satisfy 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, building out our network, 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;

place us at a disadvantage compared to our competitors that have less indebtedness; and

expose us to higher interest expense in the event of increases in interest rates because indebtedness under our senior secured credit facility bears interest at a variable rate.

As of March 31, 2007, 59.1% of our assets consisted of goodwill and other intangibles, including wireless licenses and deposits for wireless licenses. The value of our assets, and in particular, our intangible assets, will depend on market conditions, the availability of buyers and similar factors. By their nature, our intangible assets may not have a readily ascertainable market value or may not be 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.

Despite Current Indebtedness Levels, We May Incur Substantially More Indebtedness. This Could Further Increase The Risks Associated With Our Leverage.

We may incur significant additional indebtedness in the future over time, as market conditions permit, to enable us to take advantage of business expansion opportunities. Among other things, we expect to raise significant additional capital in the future to finance the build-out and initial operating costs associated with licenses that we and Denali acquired in Auction #66. In the near term, we are considering raising additional debt financing for general corporate purposes and the build-out of new markets. The terms of our senior unsecured indenture permit us, subject to specified limitations, to incur additional indebtedness, including secured indebtedness. In addition, our senior secured credit agreement permits us to incur additional indebtedness under various financial ratio tests.

If new indebtedness is added to our current levels of indebtedness, the related risks that we now face could intensify. Furthermore, the subsequent build-out of the networks covered by the licenses we acquired in Auction #66 may significantly reduce our free cash flow, increasing the risk that we may not be able to service our indebtedness.

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 borrowings, including borrowings under our revolving credit facility, will be available to us in an amount sufficient to enable us to pay our indebtedness or to fund our other liquidity needs. If the cash flow from our operating activities is insufficient, we may take actions, such as delaying or reducing capital expenditures (including expenditures to build out our newly acquired wireless licenses), attempting to restructure or refinance our indebtedness prior to maturity, selling assets or operations or seeking

Table of Contents

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. We cannot assure you that we will be able to refinance any of our indebtedness, including under our senior unsecured indenture or our senior secured credit agreement, on commercially reasonable terms, or at all. There can be no assurance that we will be able to obtain sufficient funds to enable us to repay or refinance our debt obligations on commercially reasonable terms, or at all.

Covenants in Our Existing Indenture and Credit Agreement and Other Credit Agreements or Indentures That We May Enter Into in The Future May Limit Our Ability To Operate Our Business.

Our senior unsecured indenture and senior secured credit agreement contain covenants that restrict the ability of Leap, Cricket and the subsidiary guarantors to make distributions or other payments to our investors or creditors until we satisfy certain financial tests or other criteria. In addition, the indenture and the credit agreement 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.

Under the senior secured credit agreement, we must also comply with, among other things, financial covenants with respect to a maximum consolidated senior secured leverage ratio and, if a revolving credit loan or uncollateralized letter of credit is outstanding, with respect to a minimum consolidated interest coverage ratio, a maximum consolidated leverage ratio and a minimum consolidated fixed charge ratio. The restrictions in our credit agreement could limit our ability to make borrowings, obtain debt financing, repurchase stock, refinance or pay principal or interest on our outstanding indebtedness, complete acquisitions for cash or debt or react to changes in our operating environment. Any credit agreement or indenture that we may enter into in the future may have similar restrictions.

If we default under our indenture or our credit agreement because of a covenant breach or otherwise, all outstanding amounts thereunder could become immediately due and payable. We cannot assure you that we would have sufficient funds to repay all of the outstanding amounts under our indenture or our credit agreement, and any acceleration of amounts due would have a material adverse effect on our liquidity and financial condition.

Rises in Interest Rates Could Adversely Affect Our Financial Condition.

An increase in prevailing interest rates would have an immediate effect on the interest rates charged on our variable rate debt, which rise and fall upon changes in interest rates. As of March 31, 2007, we estimate that approximately 34% of our debt was variable rate debt, after considering the effect of our interest rate swap agreements. If prevailing interest rates or other factors result in higher interest rates on our variable rate debt, the increased interest expense would adversely affect our cash flow and our ability to service our debt.

Table of Contents

The Wireless Industry is Experiencing Rapid Technological Change, and We May Lose Customers If We Fail to Keep Up With These Changes.

The wireless communications industry is experiencing 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. In the future, competitors may seek to provide competing wireless telecommunications service through the use of developing technologies such as Wi-Fi, WiMax, and Voice over Internet Protocol, or VoIP. The cost of implementing or competing against future technological innovations may be prohibitive to us, and we may lose customers if we fail to keep up with these changes.

For example, we have committed a substantial amount of capital to upgrade our network with 1xEV-DO technology to offer advanced data services. However, if such upgrades, technologies or services do not become commercially acceptable, our revenues and competitive position could be materially and adversely affected. We cannot assure you that there will be widespread demand for advanced data services or that this demand will develop at a level that will allow us to earn a reasonable return on our investment.

In addition, CDMA 2000 infrastructure networks could become less popular in the future, which could raise the cost to us of equipment and handsets that use that technology relative to the cost of handsets and equipment that utilize other technologies.

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

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

We have experienced higher than normal employee turnover in the past, in part because of our bankruptcy, including turnover of individuals at the most senior management levels. We may have difficulty attracting and retaining key personnel in future periods, particularly if we were to experience poor operating or financial performance. The loss of key individuals in the future may have a material adverse impact on our ability to effectively manage and operate our business.

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

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

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

Table of Contents

Concerns over radio frequency emissions and defective products may discourage the use of wireless handsets, which could decrease demand for our services. In addition, if one or more Cricket customers were harmed by a defective product provided to us by the manufacturer and subsequently sold in connection with our services, our ability to add and maintain customers for Cricket service could be materially adversely affected by negative public reactions.

There also are some safety risks associated with the use of wireless handsets while driving. 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 by Such Parties to Provide the Agreed Upon Services Could Materially Adversely Affect Our Business, Results of Operations and Financial Condition.

We depend heavily on suppliers and contractors with specialized expertise in order for us to efficiently operate our business. In the past, our suppliers, contractors and third-party retailers have not always performed at the levels we expect or at the levels required by their contracts. If key suppliers, contractors or third-party retailers fail to comply with their contracts, fail to meet our performance expectations or refuse or are unable to supply us in the future, our business could be severely disrupted. Generally, there are multiple sources for the types of products we purchase. However, some suppliers, including software suppliers, are the exclusive sources of their specific products. Because of the costs and time lags that can be associated with transitioning from one supplier to another, our business could be substantially disrupted if we were required to replace the products or services of one or more major suppliers with products or services from another source, especially if the replacement became necessary on short notice. Any such disruption could have a material adverse affect on our business, results of operations and financial condition.

System Failures 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 billing and customer care) is vulnerable to damage or interruption from technology failures, power loss, floods, windstorms, fires, human error, terrorism, intentional wrongdoing, or similar events. Unanticipated problems at our facilities, system failures, hardware or software failures, computer viruses or hacker attacks could affect the quality of our services and cause service interruptions. In addition, we are in the process of upgrading some of our internal network systems, and we cannot assure you that we will not experience delays or interruptions while we transition our data and existing systems onto our new systems. 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.

To accommodate expected growth in our business, management has been planning to replace our customer billing and activation system which we outsource to a third party, with a new system. The vendor who provides billing services to us has a contract to provide us services until 2010, but the vendor's new billing product has been substantially behind schedule and the vendor has missed significant development milestones. If we choose to purchase billing services from a different vendor to meet the requirements of our business and our growing customer base then, despite the existing vendor's repeated performance issues and its failure to meet significant milestones on its new billing product, the existing vendor may claim that we have breached our obligations under the contract and seek substantial damages. If the vendor were to prevail on any such claim, the resolution of the matter could materially adversely impact our earnings and cash flows.

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

We rely on a combination of patent, service mark, trademark, and trade secret laws and contractual restrictions to establish and protect our proprietary rights, all of which only offer limited protection. We endeavor to enter into agreements with our employees and contractors and agreements with parties with whom we do business in order to limit access to and disclosure of our proprietary information. Despite our efforts, the steps we have taken to protect

Table of Contents

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 competitive advantages to us. For example, on June 14, 2006, we sued MetroPCS Communications, Inc., or MetroPCS, in the United States District Court for the Eastern District of Texas, Marshall Division, Civil Action No. 2-06-CV-00240-TJW, for infringement of U.S. Patent No. 6,813,497 *Method for Providing Wireless Communication Services and Network and System for Delivering Same*, issued to us. Our complaint seeks damages and an injunction against continued infringement. On August 3, 2006, MetroPCS (i) answered the complaint, (ii) raised a number of affirmative defenses, and (iii) together with certain related entities (referred to, collectively with MetroPCS, as the MetroPCS entities), counterclaimed against Leap, Cricket, numerous Cricket subsidiaries, ANB 1 License, Denali License, and current and former employees of Leap and Cricket, including Leap CEO Douglas Hutcheson. The countersuit alleges claims for breach of contract, misappropriation, conversion and disclosure of trade secrets, misappropriation of confidential information and breach of confidential relationship, relating to information provided by MetroPCS to such employees, including prior to their employment by Leap, and asks the court to award damages, including punitive damages, impose an injunction enjoining us from participating in Auction #66, impose a constructive trust on our business and assets for the benefit of MetroPCS, and declare that the MetroPCS entities have not infringed U.S. Patent No. 6,813,497 and that such patent is invalid. MetroPCS's claims allege that we and the other counterclaim defendants improperly obtained, used and disclosed trade secrets and confidential information of the MetroPCS entities and breached confidentiality agreements with the MetroPCS entities. Denali License has since been dismissed, without prejudice, as a counterclaim defendant. Based upon our review of the counterclaims, we believe that we have meritorious defenses and intend to vigorously defend against the counterclaims. If the MetroPCS entities were to prevail in their counterclaims, it could have a material adverse effect on our business, financial condition and results of operations. Also, on September 22, 2006, Royal Street Communications, LLC, or Royal Street, an entity affiliated with MetroPCS, filed an action in the United States District Court for the Middle District of Florida, Tampa Division, Civil Action No. 8:06-CV-01754-T-23TBM, seeking a declaratory judgment that Cricket's U.S. Patent No. 6,813,497 *Method for Providing Wireless Communication Services and Network and System for Delivering Same* (the same patent that is the subject of our infringement action against MetroPCS) is invalid and is not being infringed by Royal Street or its PCS systems. On October 17, 2006, we filed a motion to dismiss the case or, in the alternative, to transfer the case to the Eastern District of Texas. We intend to vigorously defend against these actions.

On August 3, 2006, MetroPCS filed a separate action in the United States District Court for the Northern District of Texas, Dallas Division, Civil Action No. 3-06CV1399-D, seeking a declaratory judgment that our U.S. Patent No. 6,959,183 *Operations Method for Providing Wireless Communication Services and Network and System for Delivering Same* (a different patent from the one that is the subject of our infringement action against MetroPCS) is invalid and is not being infringed by MetroPCS and its affiliates. On January 24, 2007, the court dismissed this case, without prejudice, for lack of subject matter jurisdiction. Because the case was dismissed without prejudice, MetroPCS could file another complaint with the same claims in the future.

Similarly, 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.

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

Telecommunications technologies are protected by a wide array of patents and other intellectual property rights. As a result, third parties may assert infringement claims against us or our suppliers from time to time based on our or their general business operations, the equipment, software or services that we or they use or provide, or the specific operation of our wireless networks. We generally have indemnification agreements with the manufacturers,

Table of Contents

licensors and suppliers who provide us with the equipment, software and technology that we use in our business to protect us against possible infringement claims, but we cannot guarantee that we will be fully protected against all losses associated with infringement claims. 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. For example, we purchase certain CDMA handsets that incorporate EV-DO chipsets manufactured by Qualcomm Incorporated which are currently the subject of a patent infringement dispute before the United States International Trade Commission in which Broadcom Corporation is seeking an order banning, among other things, the importation into the U.S. of these EV-DO chipsets and certain products containing them. 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 was valid or successful, it could adversely affect our business 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), requiring us to redesign our business operations or systems to avoid claims of infringement or requiring us to purchase products and services at higher prices or from different suppliers.

A third party with a large patent portfolio has contacted us and suggested that we need to obtain a license under a number of its patents in connection with our current business operations. We understand that the third party has raised similar issues with, and in some cases has filed suit against, other telecommunications companies, and has obtained license agreements from one or more of such companies. If we cannot reach a mutually agreeable resolution with the third party, we may be forced to enter into a licensing or royalty agreement with it on terms that may have a negative impact on our operating results. In addition, a wireless provider has contacted us and asserted that Cricket's practice of providing service to customers with phones that were originally purchased for use on that provider's network violates copyright laws and interferes with that provider's contracts with its customers. Based on our preliminary review, we do not believe that Cricket's actions violate copyright laws or otherwise violate the other provider's rights. We do not currently expect that the eventual resolution of these matters will materially adversely affect our business, but we cannot provide assurance to our investors about the effect of any such future resolution.

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

The FCC regulates the licensing, construction, modification, operation, ownership, sale and interconnection of wireless communications systems, as do some state and local regulatory agencies. We cannot assure you that the FCC or any state or local agencies having jurisdiction over our business will not adopt regulations or take other enforcement or other actions that would adversely affect our business, impose new costs or require changes in current or planned operations. In particular, 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.

In addition, we cannot assure you that the Communications Act of 1934, as amended, or the Communications Act, from which the FCC obtains its authority, will not be further amended in a manner that could be adverse to us. The FCC recently implemented rule changes and sought comment on further rule changes focused on addressing alleged abuses of its designated entity program, which gives certain categories of small businesses preferential treatment in FCC spectrum auctions based on size. In that proceeding, the FCC has re-affirmed its goals of ensuring that only legitimate small businesses benefit from the program, and that such small businesses are not controlled or manipulated by larger wireless carriers or other investors that do not meet the small business qualification tests. We cannot predict the degree to which rule changes or increased regulatory scrutiny that may follow from this proceeding will affect our current or future business ventures or our participation in future FCC spectrum auctions.

Our operations are subject to various other regulations, including those regulations promulgated by the Federal Trade Commission, the Federal Aviation Administration, the Environmental Protection Agency, the Occupational Safety and Health Administration 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, 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,

Table of Contents

pace or financial impact of regulations and other policy changes that could be adopted by the various governmental entities that oversee portions of our business.

If Call Volume Under Our Cricket and Jump Mobile Services Exceeds Our Expectations, Our Costs of Providing Service Could Increase, Which Could Have a Material Adverse Effect on Our Competitive Position.

During the three months ended March 31, 2007, Cricket customers used their handsets for an average of approximately 1,510 minutes per month, and some markets were experiencing substantially higher call volumes. Our Cricket service plans bundle certain features, long distance and unlimited local service for a fixed monthly fee to more effectively compete with other telecommunications providers. In addition, call volumes under our Jump Mobile services have been significantly higher than expected. If customers exceed expected usage, 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 call volume, and we consistently assess and try to implement technological improvements to increase the efficiency of our wireless spectrum. However, if future wireless use by Cricket and Jump Mobile customers exceeds the capacity of our network, service quality may suffer. We may be forced to raise the price of Cricket and Jump Mobile service to reduce volume or otherwise limit the number of new customers, or incur substantial capital expenditures to improve network capacity.

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

Because we offer unlimited calling services for a fixed fee, our customers' average minutes of use per month is substantially above the U.S. wireless customer average. We intend to meet this demand by utilizing spectrum efficient technologies. Despite our recent spectrum purchases, there may come a point where we need to acquire additional spectrum in order to maintain an acceptable grade of service or provide new services to meet increasing customer demands. We also intend to acquire additional spectrum in order to enter new strategic markets. However, we cannot assure you that we will be able to acquire additional spectrum at auction or in the after-market at a reasonable cost or that additional spectrum would be made available by the FCC on a timely basis. If such additional spectrum is not available to us when required or at a reasonable cost, our results of operations could be adversely affected.

Our Wireless Licenses are Subject to Renewal and Potential Revocation in the Event that We Violate Applicable Laws.

Our existing wireless licenses are subject to renewal upon the expiration of the 10 or 15-year period for which they are granted, which renewal period commenced for some of our PCS wireless licenses in 2006. The FCC will award a renewal expectancy to a wireless licensee that has provided substantial service during its past license term and has substantially complied with applicable FCC rules and policies and the Communications Act. The FCC has routinely renewed wireless licenses in the past. 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. FCC rules provide that applications competing with a license renewal application may be considered in comparative hearings, and establish the qualifications for competing applications and the standards to be applied in hearings. We cannot assure you that the FCC will renew our wireless licenses upon their expiration.

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

As a result of our adoption of fresh-start reporting under American Institute of Certified Public Accountants' Statement of Position 90-7, Financial Reporting by Entities in Reorganization under the Bankruptcy Code, or SOP 90-7, we increased the carrying value of our wireless licenses to \$652.6 million at July 31, 2004, the fair value estimated by management based in part on information provided by an independent valuation consultant. During the years ended

December 31, 2006 and 2005, we recorded impairment charges of \$7.9 million and \$12.0 million, respectively.

Table of Contents

The market values of wireless licenses have varied dramatically over the last several years, and may vary significantly in the future. In particular, valuation swings could occur if:

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, the FCC has recently auctioned an additional 90 MHz of spectrum in the 1700 MHz to 2100 MHz band in Auction #66 and has announced that it intends to auction additional spectrum in the 700 MHz and 2.5 GHz bands in subsequent auctions. 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. A significant impairment loss could have a material adverse effect on our operating income and on the carrying value of our wireless licenses on our balance sheet.

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

We assess potential impairments to our long-lived assets, including property and equipment and certain intangible assets, when there is evidence that events or changes in circumstances indicate that the carrying value may not be recoverable. We assess potential impairments to indefinite-lived intangible assets, including goodwill and wireless licenses, annually and when there is evidence that events or changes in circumstances indicate that an impairment condition may exist. If we do not achieve our planned operating results, this may ultimately result in a non-cash impairment charge related to our long-lived and/or our indefinite-lived intangible assets. A significant impairment loss could have a material adverse effect on our operating results and on the carrying value of our goodwill or wireless licenses and/or our long-lived assets on our balance sheet.

We May Incur Higher Than Anticipated Intercarrier Compensation Costs.

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

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

Table of Contents

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

Our operating costs can increase substantially as a result of customer credit card, subscription or dealer fraud. We have implemented a number of strategies and processes to detect and prevent efforts to defraud us, and we believe that our efforts have substantially reduced the types of fraud we have identified. However, if our strategies are not successful in detecting and controlling fraud in the future, 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 Our 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 is likely 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;

announcements of technological innovations, new services or service enhancements, strategic alliances or significant agreements by us or by our competitors;

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; and

market conditions in our industry and the economy as a whole.

The 16,460,077 Shares of Leap Common Stock Registered for Resale By Our Shelf Registration Statement May Adversely Affect The Market Price of Leap's Common Stock.

As of May 4, 2007, 68,086,879 shares of Leap common stock were issued and outstanding. Our resale shelf Registration Statement, as amended, registers for resale 16,460,077 shares, or approximately 24.2%, of Leap's outstanding common stock. We are unable to predict the potential effect that sales into the market of any material portion of such shares may have on the then prevailing market price of Leap's 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's common stock. These sales also could 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's Common Stock.

As of May 4, 2007, 68,086,879 shares of Leap common stock were issued and outstanding, and 4,553,121 additional shares of Leap common stock were reserved for issuance, including 3,185,708 shares reserved for issuance upon exercise of awards granted or available for grant under Leap's 2004 Stock Option, Restricted Stock and Deferred Stock Unit Plan, 767,413 shares reserved for issuance under Leap's Employee Stock Purchase Plan, and 600,000 shares reserved for issuance upon exercise of outstanding warrants.

In addition, Leap has reserved five percent of its outstanding shares, which was 3,404,344 shares as of May 4, 2007, for potential issuance to CSM Wireless, LLC, or CSM, upon the exercise of CSM's option to put its entire equity interest in LCW Wireless to Cricket. Under the amended and restated limited liability company agreement with CSM and WLPCS Management, LLC, or WLPCS, the purchase price for CSM's equity interest is calculated on a pro rata basis using either the appraised value of LCW Wireless or a multiple of Leap's enterprise value divided by its adjusted EBITDA and applied to LCW Wireless' adjusted EBITDA to impute an enterprise value and equity value for LCW Wireless. Cricket may satisfy the put price either in cash or in Leap common stock, or a combination thereof, as determined by Cricket in its discretion. However, the covenants in the Credit Agreement do not permit Cricket to satisfy any substantial portion of its put obligations to CSM in cash. If Cricket elects to satisfy its put

Table of Contents

obligations to CSM with Leap common stock, the obligations of the parties are conditioned upon the block of Leap common stock issuable to CSM not constituting more than five percent of Leap's outstanding common stock at the time of issuance. Dilution of the outstanding number of shares of Leap's common stock could adversely affect prevailing market prices for Leap's common stock.

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

Our Directors and Affiliated Entities Have Substantial Influence over Our Affairs.

Our directors and entities affiliated with them beneficially owned in the aggregate approximately 24.6% of Leap common stock as of May 4, 2007. 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.

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

Additionally, we are 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.

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

None.

Item 3. Defaults Upon Senior Securities.

None.

Table of Contents**Item 4. Submission of Matters to a Vote of Security Holders.**

None.

Item 5. Other Information.***Adoption of 2007 Cricket Non-Sales Bonus Plan***

During the period covered by this Quarterly Report on Form 10-Q, we adopted the 2007 Cricket Non-Sales Bonus Plan, which we refer to as the 2007 Bonus Plan. The 2007 Bonus Plan is a cash bonus plan for eligible employees of Cricket working a specified minimum number of hours per week, other than employees who participate in Cricket's separate sales bonus plan. Bonuses are based 75% on our achievement of performance metrics relating to (1) our year-to-date adjusted operating income before depreciation and amortization; and (2) the year-to-date net growth in our customer base. The remaining 25% of bonuses payable to employees is based on an evaluation of the individual employee's performance.

The foregoing description of the 2007 Bonus Plan is qualified in its entirety by reference to the full text of the plan, a copy of which is attached to this Quarterly Report at Exhibit 10.13.

Item 6. Exhibits.*Index to Exhibits:*

Exhibit Number	Description of Exhibit
4.3.2(1)	Third Supplemental Indenture, dated as of April 30, 2007, among Cricket Communications, Inc., Wells Fargo Bank, N.A., as trustee, Leap Wireless International, Inc. and the other guarantors under the Indenture.
10.3.5(2)	Amendment No. 1 to Amended and Restated Credit Agreement, dated March 15, 2007, by and among Cricket Communications, Inc., Leap Wireless International, Inc., the lenders party thereto and Bank of America, N.A., as administrative agent.
10.3.6(2)	Consent dated March 15, 2007 by Leap Wireless International, Inc. and the subsidiary guarantors party thereto.
10.4.6*	Letter Agreement, dated as of March 5, 2007, regarding termination of Credit Agreement, dated as of December 22, 2004, among Cricket Communications, Inc., Alaska Native Broadband 1 License, LLC, and Alaska Native Broadband I, LLC.
10.5.2*	Amendment No. 2 to Credit Agreement by and among Cricket Communications, Inc., Denali Spectrum License, LLC and Denali Spectrum, LLC, dated as of April 16, 2007, between Cricket Communications, Inc., Denali Spectrum License, LLC and Denali Spectrum, LLC.
10.11.19*	First Amendment to the Leap Wireless International, Inc. 2004 Stock Option, Restricted Stock and Deferred Stock Unit Plan.
10.13*	2007 Cricket Non-Sales Bonus Plan.
31.1*	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	

Edgar Filing: LEAP WIRELESS INTERNATIONAL INC - Form 10-Q

Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32** Certifications of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* Filed herewith.

** These certifications are being furnished solely to accompany this quarterly report pursuant to 18 U.S.C. § 1350, and are not being filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and are 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.

Table of Contents

- (1) Filed as an exhibit to Leap's Current Report on Form 8-K, dated April 30, 2007, filed with the SEC on May 4, 2007, and incorporated herein by reference.
- (2) Filed as an exhibit to Leap's Current Report on Form 8-K, dated March 15, 2007, filed with the SEC on March 21, 2007, and incorporated herein by reference.

Table of Contents

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.

By:
/s/ Douglas Hutcheson

S. Douglas Hutcheson
Chief Executive Officer and President
(Principal Executive Officer)

Date: May 10, 2007

Date: May 10, 2007

By:
/s/ Amin I. Khalifa

Amin I. Khalifa
Executive Vice President and
Chief Financial Officer
(Principal Financial Officer)