LEAP WIRELESS INTERNATIONAL INC
Form 10-Q
May 10, 2007

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2007

OR

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

For the transition period from _____ to _____.

Commission File Number 0-29752

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

Delaware	**33-0811062**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
10307 Pacific Center Court, San Diego, CA	**92121**
(Address of principal executive offices)	**(Zip Code)**

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

Not applicable
(Former name, former address and former fiscal year, if changed since last 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 þ No o

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.

Large accelerated filer þ   Accelerated filer o   Non-accelerated filer o

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

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 þ   No o

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

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PART I
FINANCIAL INFORMATION

Item 1. Financial Statements.

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

	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

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.

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LEAP WIRELESS INTERNATIONAL, INC.

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

	Three Months Ended March 31, 2007	Three Months Ended March 31, 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

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.

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LEAP WIRELESS INTERNATIONAL, INC.

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

	Three Months Ended March 31, 2007	Three Months Ended March 31, 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.

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LEAP WIRELESS INTERNATIONAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 1. The Company

Leap Wireless International, Inc. (Leap), a Delaware corporation, together with its subsidiaries, is a wireless communications carrier that offers digital wireless 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 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.

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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.

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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	Three Months Ended March 31, 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.

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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	Three Months Ended March 31, 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.

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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.

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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	Three Months Ended March 31, 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

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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

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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

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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.

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.

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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

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

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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

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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)

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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)				