

LEAP WIRELESS INTERNATIONAL INC

Form 10-Q/A

April 20, 2006

**Table of Contents**

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

**FORM 10-Q/A  
(Amendment No. 1)**

(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, 2005**

**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 ninety 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.

Large accelerated filer  Accelerated filer  Non-accelerated filer

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 April 17, 2006 was 61,212,528.

---

**Table of Contents**

**EXPLANATORY NOTE**

The previously issued unaudited condensed consolidated financial statements of Leap Wireless International, Inc. have been amended and restated to correct errors: (i) in the calculation of the tax bases of certain wireless licenses and deferred taxes associated with tax deductible goodwill, (ii) in the accounting for the release of the valuation allowance on deferred tax assets recorded in fresh-start reporting, and (iii) based on the determination that the netting of deferred tax assets associated with wireless licenses against deferred tax liabilities associated with wireless licenses was not appropriate, as well as the resulting error in the calculation of the valuation allowance on the license-related deferred tax assets. These errors arose in connection with our implementation of fresh-start reporting on July 31, 2004. See Note 3 to our condensed consolidated financial statements included in Part I Item 1 of this report for additional information.

We have amended and restated in its entirety each item of the quarterly report on Form 10-Q for the quarter ended March 31, 2005 (the Original Form 10-Q ), filed with the Securities and Exchange Commission on June 15, 2005 (the Original Filing Date ), that required a change to reflect the restatement. These items include Part I: Item 1. Financial Statements; Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations; and Item 4. Controls and Procedures. We have supplemented Item 6 of Part II to include current certifications of our Chief Executive Officer and Chief Financial Officer pursuant to Sections 302 and 906 of the Sarbanes-Oxley Act of 2002, filed as Exhibits 31.1, 31.2 and 32 to this amendment.

This amendment contains only the sections and exhibits to the Original Form 10-Q that are being amended and restated, and those unaffected parts or exhibits are not included herein. This amendment continues to speak as of the Original Filing Date, and the Company has not updated the disclosure contained herein to reflect events that have occurred since the Original Filing Date. Accordingly, this amendment should be read in conjunction with the Company's other filings made with the Securities and Exchange Commission subsequent to the filing of the Original Form 10-Q, including the amendments to those filings, if any.

---

**LEAP WIRELESS INTERNATIONAL, INC.**

**QUARTERLY REPORT ON FORM 10-Q/A**

**For the Quarter Ended March 31, 2005**

**TABLE OF CONTENTS**

	<b>Page</b>
<b><u>PART I FINANCIAL INFORMATION</u></b>	
<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>	17
<u>Item 4.</u> <u>Controls and Procedures</u>	34
<b><u>PART II OTHER INFORMATION</u></b>	
<u>Item 6.</u> <u>Exhibits</u>	38
<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)**

	<b>Successor Company</b>	
	<b>March 31,</b>	<b>December 31,</b>
	<b>2005</b>	<b>2004</b>
	<b>(Unaudited)</b>	<b>(As Restated)</b>
	<b>(As</b>	
	<b>Restated)</b>	<b>(See Note 3)</b>
	<b>(See Note 3)</b>	
<b>Assets</b>		
Cash and cash equivalents	\$ 22,211	\$ 141,141
Short-term investments	99,402	113,083
Restricted cash, cash equivalents and short-term investments	30,903	31,427
Inventories	28,982	25,816
Other current assets	36,662	37,531
Total current assets	218,160	348,998
Property and equipment, net	548,166	575,486
Wireless licenses	581,828	652,653
Assets held for sale (Note 7)	88,057	
Goodwill	453,956	457,637
Other intangible assets, net	140,824	151,461
Deposits for wireless licenses (Notes 7 and 8)	236,845	24,750
Other assets	14,184	9,902
Total assets	\$ 2,282,020	\$ 2,220,887
<b>Liabilities and Stockholders Equity</b>		
Accounts payable and accrued liabilities	\$ 73,421	\$ 91,093
Current maturities of long-term debt (Note 5)	5,000	40,373
Other current liabilities	70,511	71,770
Total current liabilities	148,932	203,236
Long-term debt (Note 5)	493,750	371,355
Other long-term liabilities	160,812	176,240
Total liabilities	803,494	750,831

Minority interest	1,000	
Commitments and contingencies (Notes 2, 5 and 8)		
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, 60,000,000 shares issued and outstanding	6	6
Additional paid-in capital	1,478,392	1,478,392
Accumulated deficit	(875)	(8,391)
Accumulated other comprehensive income	3	49
Total stockholders' equity	1,477,526	1,470,056
Total liabilities and stockholders' equity	\$ 2,282,020	\$ 2,220,887

See accompanying notes to condensed consolidated financial statements.

Table of Contents**LEAP WIRELESS INTERNATIONAL, INC.****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND  
COMPREHENSIVE INCOME (LOSS)  
(UNAUDITED)****(In thousands, except per share data)**

	<b>Successor Company Three Months Ended March 31, 2005 (As Restated) (See Note 3)</b>	<b>Predecessor Company Three Months Ended March 31, 2004</b>
Revenues:		
Service revenues	\$ 185,981	\$ 169,051
Equipment revenues	42,389	37,771
Total revenues	228,370	206,822
Operating expenses:		
Cost of service (exclusive of items shown separately below)	(50,197)	(48,000)
Cost of equipment	(49,178)	(43,755)
Selling and marketing	(22,995)	(23,253)
General and administrative	(36,035)	(38,610)
Depreciation and amortization	(48,104)	(75,461)
Total operating expenses	(206,509)	(229,079)
Operating income (loss)	21,861	(22,257)
Interest income	1,903	
Interest expense (contractual interest expense was \$66.4 million for the three months ended March 31, 2004)	(9,123)	(1,823)
Other income (expense), net	(1,286)	19
Income (loss) before reorganization items and income taxes	13,355	(24,061)
Reorganization items, net		(2,025)
Income (loss) before income taxes	13,355	(26,086)
Income taxes	(5,839)	(1,944)
Net income (loss)	7,516	(28,030)
Other comprehensive income (loss):		
Unrealized holding gains (losses) on investments, net	(46)	265
Comprehensive income (loss)	\$ 7,470	\$ (27,765)



Net income (loss) per share:			
Basic	\$	0.13	\$ (0.48)
Diluted	\$	0.12	\$ (0.48)
Shares used in per share calculations:			
Basic		60,000	58,645
Diluted		60,236	58,645

See accompanying notes to condensed consolidated financial statements.

**Table of Contents****LEAP WIRELESS INTERNATIONAL, INC.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(UNAUDITED)  
(In thousands)**

	<b>Successor Company Three Months Ended March 31, 2005</b>	<b>Predecessor Company Three Months Ended March 31, 2004</b>
Operating activities:		
Net cash provided by operating activities	\$ 23,462	\$ 40,760
Investing activities:		
Purchase of property and equipment	(24,487)	(16,157)
Deposits for wireless licenses	(212,095)	
Purchase of investments	(69,025)	(33,651)
Sale and maturity of investments	83,568	16,850
Restricted cash, cash equivalents and investments, net	407	2,600
Net cash used in investing activities	(221,632)	(30,358)
Financing activities:		
Proceeds from long-term debt	500,000	
Repayment of long-term debt	(413,979)	
Payment of debt financing costs	(6,781)	
Net cash provided by financing activities	79,240	
Net increase (decrease) in cash and cash equivalents	(118,930)	10,402
Cash and cash equivalents at beginning of year	141,141	84,070
Cash and cash equivalents at end of period	\$ 22,211	\$ 94,472

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 and Nature of Business**

Leap Wireless International, Inc. ( Leap ), a Delaware corporation, together with its wholly owned subsidiaries, is a wireless communications carrier that offers digital wireless service in the United States of America under the brand Cricket®. Leap conducts operations through its subsidiaries and has no independent operations or sources of operating revenue other than through dividends, if any, from its operating subsidiaries. Cricket service is operated by Leap's wholly owned subsidiary, Cricket Communications, Inc. ( Cricket ). Leap and Cricket and their subsidiaries are collectively referred to herein as the Company. As of March 31, 2005, the Company provided wireless service in 39 markets.

In November 2004, the Company acquired a 75% non-controlling membership interest in Alaska Native Broadband 1, LLC ( ANB 1 ) for the purpose of participating in the FCC's Auction #58 (Note 7) through ANB 1's wholly owned subsidiary, Alaska Native Broadband 1 License, LLC ( ANB 1 License ). The Company consolidates its investment in ANB 1.

**Note 2. Reorganization and Fresh-Start Reporting**

On April 13, 2003 (the Petition Date ), Leap, Cricket and substantially all of their subsidiaries filed voluntary petitions for relief under Chapter 11 of the United States Bankruptcy Code ( Chapter 11 ) in the United States Bankruptcy Court for the Southern District of California (the Bankruptcy Court ). On October 22, 2003, the Bankruptcy Court confirmed the Fifth Amended Joint Plan of Reorganization (the Plan of Reorganization ) of Leap, Cricket and their debtor subsidiaries. All material conditions to the effectiveness of the Plan of Reorganization were resolved on August 5, 2004, the Plan of Reorganization became effective on August 16, 2004 (the Effective Date ), and the Company emerged from Chapter 11 bankruptcy. On that date, a new Board of Directors of Leap was appointed, Leap's previously existing stock, options and warrants were cancelled, and Leap issued 60 million shares of new Leap common stock for distribution to two classes of creditors. The Plan of Reorganization implemented a comprehensive financial reorganization that significantly reduced the Company's outstanding indebtedness. On the Effective Date of the Plan of Reorganization, the Company's long-term debt was reduced from a book value of more than \$2.4 billion to debt with an estimated fair value of \$412.8 million, consisting of new Cricket 13% senior secured pay-in-kind notes due 2011 with a face value of \$350 million and an estimated fair value of \$372.8 million, issued on the Effective Date, and approximately \$40 million of remaining indebtedness to the FCC (net of the repayment of \$45 million of principal and accrued interest to the FCC on the Effective Date). A summary of the material actions that occurred during the bankruptcy process and as of the Effective Date of the Plan of Reorganization is included in the Company's Annual Report on Form 10-K for the year ended December 31, 2004 as originally filed with the Securities and Exchange Commission ( SEC ) on May 16, 2005 and subsequently restated as of and for the five months ended December 31, 2004 in the Company's Annual Report on Form 10-K for the year ended December 31, 2005 filed with the SEC on March 27, 2006.

As of the Petition Date and through the adoption of fresh-start reporting on July 31, 2004, the Company implemented American Institute of Certified Public Accountants' Statement of Position ( SOP ) 90-7, Financial Reporting by Entities in Reorganization under the Bankruptcy Code. In accordance with SOP 90-7, the Company separately reported certain expenses, realized gains and losses and provisions for losses related to the Chapter 11 filings as reorganization items. In addition, commencing as of the Petition Date and continuing while in bankruptcy, the Company ceased accruing interest and amortizing debt discounts and debt issuance costs for its pre-petition debt that was subject to compromise, which included debt with a book value totaling approximately \$2.4 billion as of the Petition Date.

The Company adopted the fresh-start accounting provisions of SOP 90-7 as of July 31, 2004. Under fresh-start reporting, a new entity is deemed to be created for financial reporting purposes. Therefore, as used in these condensed consolidated financial statements, the Company is referred to as the Predecessor Company for periods on or prior to July 31, 2004 and is referred to as the Successor Company for periods after July 31, 2004, after giving effect to the implementation of fresh-start reporting. The financial statements of the Successor Company are

## **Table of Contents**

not comparable in many respects to the financial statements of the Predecessor Company because of the effects of the consummation of the Plan of Reorganization as well as the adjustments for fresh-start accounting.

Under SOP 90-7, reorganization value represents the fair value of the entity before considering liabilities and approximates the amount a willing buyer would pay for the assets of the entity immediately after the reorganization. In implementing fresh-start reporting, the Company allocated its reorganization value to the fair value of its assets in conformity with procedures specified by Statement of Financial Accounting Standards ( SFAS ) No. 141, Business Combinations, and stated its liabilities, other than deferred taxes, at the present value of amounts expected to be paid. The amount remaining after allocation of the reorganization value to the fair value of the Company's identified tangible and intangible assets is reflected as goodwill, which is subject to periodic evaluation for impairment. In addition, under fresh-start reporting, the Company's accumulated deficit was eliminated and new equity was issued according to the Plan of Reorganization. The determination of reorganization value and the adjustments to the Predecessor Company's consolidated balance sheet at July 31, 2004 resulting from the application of fresh-start accounting are summarized in the Company's Annual Report on Form 10-K for the year ended December 31, 2004, as originally filed, and subsequently restated as of and for the five months ended December 31, 2004 in the Company's Annual Report on Form 10-K for the year ended December 31, 2005.

The fair values of goodwill and intangible assets reported in the Successor Company's consolidated balance sheet were estimated based upon the Company's estimates of future cash flows and other factors including discount rates. If these estimates or the assumptions underlying these estimates change in the future, the Company may be required to record impairment charges. In addition, a permanent and sustained decline in the market value of the Company's outstanding common stock could also result in the requirement to recognize impairment charges in future periods.

### **Note 3. Basis of Presentation and Significant Accounting Policies**

#### ***Interim Financial Statements***

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, 2005. 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.

#### ***Principles of Consolidation***

The condensed consolidated financial statements include the accounts of Leap and its wholly owned subsidiaries as well as the accounts of ANB 1 and its wholly owned subsidiary ANB 1 License. The Company consolidates its interest in ANB 1 in accordance with FASB Interpretation No. 46-R, Consolidation of Variable Interest Entities, because the Company will absorb a majority of ANB 1's expected losses. The Company records 100% of the losses of ANB 1 to the extent of its investment in and loans to ANB 1 and ANB 1 License, since the Company expects to be a primary financing source for ANB 1 License. All significant intercompany accounts and transactions have been eliminated in the condensed consolidated financial statements.

#### ***Restatement of Previously Reported Unaudited Interim Financial Information***

The Company has restated its consolidated financial information for the quarterly period ended March 31, 2005. The determination to restate the interim financial information was made by the Company's Audit Committee

**Table of Contents**

upon the recommendation of management as a result of the identification of the following errors related to the accounting for deferred income taxes:

The tax bases of several wireless licenses were inaccurately compiled by the Company during its adoption of fresh-start reporting as of July 31, 2004, which had the effect in the aggregate of understating wireless license deferred tax liabilities and overstating wireless license deferred tax assets. In addition, the misstatement of the tax bases of operating licenses with deferred tax liabilities had the net effect of overstating deferred income tax expense in the periods subsequent to July 31, 2004.

The Company incorrectly accounted for tax-deductible goodwill upon the adoption of fresh-start reporting as of July 31, 2004, which had the effect of understating deferred tax liabilities and understating deferred income tax expense in the periods subsequent to July 31, 2004.

In connection with the adoption of fresh-start reporting as of July 31, 2004, the Company adopted the practice of netting deferred tax assets associated with wireless licenses against deferred tax liabilities associated with wireless licenses and, as a result, did not record valuation allowances on its wireless license deferred tax assets. However, because the Company's wireless licenses have indefinite useful lives, the deferred tax liabilities related to the licenses will not reverse until some indefinite future period when a license is either sold or written down due to impairment. As a result, the wireless license deferred tax liabilities may not be used to support the realization of the wireless license deferred tax assets and, thus, may not be used to offset the wireless license deferred tax assets. Accordingly, the Company has now determined that the netting of deferred tax assets associated with wireless licenses against deferred tax liabilities associated with wireless licenses was not appropriate. Instead, valuation allowances should have been recorded on the wireless license deferred tax assets.

The Company incorrectly accounted for the release of valuation allowances on deferred tax assets recorded in fresh-start reporting. The Company previously concluded that there had been no release of fresh-start valuation allowances during the three months ended March 31, 2005. However, the reversal of deferred tax assets recorded in fresh-start reporting resulted in a release of the related fresh-start valuation allowances. As restated, the release of fresh-start valuation allowances is recorded as a reduction of goodwill and resulted in deferred income tax expense for the three months ended March 31, 2005.

The following tables present the effects of the restatements on the Company's previously issued consolidated financial statements and interim consolidated financial information (in thousands, except per share data):

	<b>As of December 31, 2004</b>		
	<b>Previously Reported</b>	<b>Adjustment</b>	<b>As Restated</b>
<b>Consolidated Balance Sheet Data:</b>			
Other current assets	\$ 35,144	\$ 2,387	\$ 37,531
Goodwill	\$ 329,619	\$ 128,018	\$ 457,637
Other current liabilities	\$ 71,965	\$ (195)	\$ 71,770
Other long-term liabilities	\$ 45,846	\$ 130,394	\$ 176,240
Accumulated deficit	\$ (8,629)	\$ 238	\$ (8,391)
Accumulated other comprehensive income	\$ 81	\$ (32)	\$ 49





**Table of Contents**

	<b>As of and for the Three Months Ended March 31, 2005</b>		
	<b>Previously Reported (Unaudited)</b>	<b>Adjustment (Unaudited)</b>	<b>As Restated (Unaudited)</b>
<b>Consolidated Balance Sheet Data:</b>			
Other current assets	\$ 34,275	\$ 2,387	\$ 36,662
Goodwill	\$ 329,619	\$ 124,337	\$ 453,956
Other current liabilities	\$ 70,753	\$ (242)	\$ 70,511
Other long-term liabilities	\$ 28,951	\$ 131,861	\$ 160,812
Retained earnings (accumulated deficit)	\$ 4,017	\$ (4,892)	\$ (875)
Accumulated other comprehensive income	\$ 6	\$ (3)	\$ 3
<b>Consolidated Statement of Operations Data:</b>			
Income tax expense	\$ 709	\$ 5,130	\$ 5,839
Net income	\$ 12,646	\$ (5,130)	\$ 7,516
Comprehensive income	\$ 12,652	\$ (5,182)	\$ 7,470
Basic net income per share	\$ 0.21	\$ (0.08)	\$ 0.13
Diluted net income per share	\$ 0.21	\$ (0.09)	\$ 0.12

***Reorganization Items***

Reorganization items represent amounts incurred by the Predecessor Company as a direct result of the Chapter 11 filings and are presented separately in the Predecessor Company's condensed consolidated statements of operations. For the three months ended March 31, 2004, reorganization items consisted primarily of professional fees for legal, financial advisory and valuation services directly associated with the Company's Chapter 11 filings and reorganization process.

***Restricted Cash, Cash Equivalents and Short-Term Investments***

Restricted cash, cash equivalents and short-term investments include funds set aside or pledged to satisfy remaining administrative claims and priority claims against Leap and Cricket following their emergence from bankruptcy, and cash restricted for other purposes.

***Revenues and Cost of Revenues***

Cricket's business revenues arise from the sale of wireless services, handsets and accessories. Wireless services are generally provided on a month-to-month basis. Amounts received in advance for wireless services from customers who pay in advance are initially recorded as deferred revenues and are recognized as service revenue 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. This is because the Company does not require any of its customers to sign long-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. The Company also charges customers for service plan changes, activation fees and other service fees. Revenues from service plan change fees are deferred and recorded to revenue over the estimated customer relationship period, and other service fees are recognized when received. Activation fees are allocated to the other elements of the multiple element arrangement (including service and equipment) on a relative fair value basis. Because the fair values of the Company's handsets are higher than the total consideration received for the handsets and activation fees combined, the Company allocates the activation fees

entirely to equipment revenues and recognizes the activation fees when received. Activation fees included in equipment revenues during the three months ended March 31, 2005 and 2004 totaled \$4.6 million and \$5.8 million, respectively. Direct costs associated with customer activations are expensed as incurred. Cost of service generally includes direct costs and related overhead, excluding depreciation and amortization, of operating the Company's networks.

## **Table of Contents**

Equipment revenues arise from the sale of handsets and accessories, and activation fees as described above. 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. Amounts due from third-party dealers and distributors for handsets are recorded as deferred revenue upon shipment of the handsets by the Company to such dealers and distributors and are recognized as equipment revenues when service is activated by customers. Handsets sold by 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. Returns of handsets and accessories have historically been insignificant.

### ***Property and Equipment***

Property and equipment are initially recorded at cost. Additions and improvements, including interest and certain labor costs, 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.

Upon emergence from Chapter 11 and adoption of fresh-start reporting, the Company re-assessed the carrying values and useful lives of its property and equipment. As a result of this re-assessment, which included a review of the Company's historical usage of and expected future service from existing property and equipment, and a review of industry averages for similar property and equipment, the Company changed the depreciable lives for certain network equipment assets. These network equipment assets that were previously depreciated over periods ranging from two to five years are now depreciated over periods ranging from three to fifteen years. As a result of this change, depreciation expense was reduced and net income increased by approximately \$30.8 million, or \$0.51 per diluted share, for the three months ended March 31, 2005 compared to what they would have been if the useful lives had not been revised. The estimated useful lives for the Company's other property and equipment, which have remained unchanged, are three to five years for computer hardware and software, and three to seven years for furniture, fixtures and retail and office 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.

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 and 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.

At March 31, 2005, equipment with a net book value in the amount of \$15.3 million was classified in assets held for sale (see Note 7). At December 31, 2004, there was no equipment to be disposed of by sale.

### ***Impairment of Long-Lived Assets***

In accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, the Company assesses potential impairments to its 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. An impairment loss may be required to be recognized when the undiscounted cash flows expected to be generated by a long-lived asset (or group of such assets) is less than its carrying value. Any required impairment loss would be measured as the amount by which the asset's carrying value exceeds its fair value and would be recorded as a

reduction in the carrying value of the related asset and charged to results of operations.

***Wireless Licenses***

Wireless licenses are initially recorded at cost. The Company has determined that its wireless licenses meet the definition of indefinite-lived intangible assets under SFAS No. 142, Goodwill and Other Intangible Assets. Wireless licenses to be disposed of by sale are carried at the lower of carrying value or fair value less costs to sell. At

**Table of Contents**

March 31, 2005, wireless licenses with a carrying value of \$70.8 million were classified in assets held for sale (see Note 7). At December 31, 2004, wireless licenses to be disposed of by sale were not significant. In connection with the adoption of fresh-start reporting, the Company increased the carrying value of its wireless licenses to their estimated fair market values.

***Goodwill and Other Intangible Assets***

Goodwill represents the excess of reorganization value over the fair value of identified tangible and intangible assets recorded in connection with fresh-start accounting. Other intangible assets were recorded upon adoption of fresh-start accounting and consist of customer relationships and trademarks, which are being amortized on a straight-line basis over their estimated useful lives of four and fourteen years, respectively. At March 31, 2005, intangible assets with a carrying value of \$1.9 million were classified in assets held for sale (see Note 7). At December 31, 2004, there were no intangible assets to be disposed of by sale.

***Impairment of Indefinite-lived Intangible Assets***

In accordance with SFAS No. 142, the Company assesses potential impairments to its 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. The Successor Company has chosen to conduct its annual test for impairment during the third quarter of each year. An impairment loss is recognized when the fair value of the asset is less than its carrying value, and would be measured as the amount by which the asset's carrying value exceeds its fair value. Any required impairment loss would be recorded as a reduction in the carrying value of the related asset and charged to results of operations.

***Basic and Diluted Net Income (Loss) Per Share***

Basic earnings per share is calculated by dividing net income (loss) by the weighted average number of common shares outstanding during the reporting period. Diluted earnings per share reflect the potential dilutive effect of additional common shares that are issuable upon exercise of outstanding stock options and warrants calculated using the treasury stock method.

A reconciliation of weighted average shares outstanding used in calculating basic and diluted net income (loss) per share for the three months ended March 31, 2005 and 2004 is as follows (unaudited) (in thousands):

	<b>Successor Company Three Months Ended March 31, 2005</b>	<b>Predecessor Company Three Months Ended March 31, 2004</b>
Weighted average shares outstanding basic earnings per share	60,000	58,645
Effect of dilutive securities:		
Employee stock options	9	
Warrants to MCG	227	
Adjusted weighted average shares outstanding diluted earnings per share	60,236	58,645

The number of shares not included in the computation of diluted net loss per share because their effect would have been antidilutive totaled 13.3 million for the three months ended March 31, 2004.

***Stock-based Compensation***

The Company measures compensation expense for its employee and director stock-based compensation plans using the intrinsic value method. All outstanding stock options of the Predecessor Company were cancelled upon emergence from bankruptcy in accordance with the Plan of Reorganization. During the first quarter of 2005, under the terms of the Leap Wireless International, Inc. 2004 Stock Option, Restricted Stock and Deferred Stock Unit Plan (the 2004 Plan ), the Company granted a total of 839,658 non-qualified stock options to directors, executive

**Table of Contents**

officers and other employees of the Company. A total of 4,800,000 shares of Leap common stock are reserved for issuance under the 2004 Plan. There were no stock options issued during the three months ended March 31, 2004.

The following table shows the effects on net income (loss) and net income (loss) per share if the Company had applied the fair value provisions of SFAS No. 123, Accounting for Stock-Based Compensation in measuring compensation expense for its stock-based compensation plans (unaudited) (in thousands, except per share data):

	<b>Successor Company Three Months Ended March 31, 2005 (As Restated)</b>	<b>Predecessor Company Three Months Ended March 31, 2004</b>
As reported net income (loss)	\$ 7,516	\$ (28,030)
Add back stock-based compensation benefit included in net loss		(654)
Less net pro forma compensation (expense) benefit	(1,526)	6,677
Pro forma net income (loss)	\$ 5,990	\$ (22,007)
Basic net income (loss) per share:		
As reported	\$ 0.13	\$ (0.48)
Pro forma	\$ 0.10	\$ (0.38)
Diluted net income (loss) per share:		
As reported	\$ 0.12	\$ (0.48)
Pro forma	\$ 0.10	\$ (0.38)

The weighted average grant date fair value per share of the stock options granted during the three months ended March 31, 2005 was \$18.85, which was estimated using the Black-Scholes option-pricing model and the following weighted average assumptions:

	<b>Three Months Ended March 31, 2005</b>
Risk free interest rate	3.48%
Expected dividend yield	
Expected volatility	87%
Expected life (in years)	5.4

**Reclassifications**

Certain prior period amounts have been reclassified to conform to the current period presentation.



**Table of Contents****Note 4. Supplementary Financial Information*****Supplementary Balance Sheet Information (in thousands):***

	<b>Successor Company</b>	
	<b>March 31, 2005 (Unaudited) (As Restated)</b>	<b>December 31, 2004 (As Restated)</b>
Property and equipment, net:		
Network equipment	\$ 598,188	\$ 599,598
Computer equipment and other	28,099	26,285
Construction-in-progress	19,823	10,517
	646,110	636,400
Accumulated depreciation	(97,944)	(60,914)
	\$ 548,166	\$ 575,486
Accounts payable and accrued liabilities:		
Trade accounts payable	\$ 16,892	\$ 35,184
Accrued payroll and related benefits	14,218	13,579
Other accrued liabilities	42,311	42,330
	\$ 73,421	\$ 91,093
Other current liabilities:		
Accrued taxes	\$ 41,709	\$ 49,665
Deferred revenue	22,755	18,145
Accrued interest		1,025
Other	6,047	2,935
	\$ 70,511	\$ 71,770
Other long-term liabilities:		
Deferred tax liabilities	\$ 147,786	\$ 145,673
Other	13,026	30,567
	\$ 160,812	\$ 176,240

***Supplementary Cash Flow Information (unaudited) (in thousands):***

<b>Successor Company</b>	<b>Predecessor Company</b>
------------------------------	--------------------------------

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2005</b>	<b>2004</b>
Supplementary disclosure of cash flow information:		
Cash paid for interest	\$ 27,142	\$
Cash paid for income taxes	\$ 52	\$ 8

**Note 5. Debt*****Credit Agreement***

On January 10, 2005, Cricket entered into a senior secured credit agreement (the *Credit Agreement* ) with a syndicate of lenders and Bank of America, N.A. (as administrative agent and letter of credit issuer).

**Table of Contents**

The new facilities under the Credit Agreement consist of a six-year \$500 million term loan, which was fully drawn at closing, and an undrawn five-year \$110 million revolving credit facility. Under the Credit Agreement, the term loan bears interest at the London Interbank Offered Rate (LIBOR) plus 2.5 percent, with interest periods of one, two, three or six months, or bank base rate plus 1.5 percent, as selected by Cricket. Outstanding borrowings under the term loan must be repaid in 20 quarterly payments of \$1.25 million each, commencing March 31, 2005, followed by four quarterly payments of \$118.75 million each, commencing March 31, 2010. The maturity date for outstanding borrowings under the revolving credit facility is January 10, 2010. The commitment of the lenders under the revolving credit facility may be reduced in the event mandatory prepayments are required under the Credit Agreement and by one-twelfth of the original aggregate revolving credit commitment on January 1, 2008 and by one-sixth of the original aggregate revolving credit commitment on January 1, 2009 (each such amount to be net of all prior reductions) based on certain leverage ratios and other tests. The commitment fee on the revolving credit facility is payable quarterly at a rate of 1.0 percent per annum when the utilization of the facility (as specified in the Credit Agreement) is less than 50 percent and at 0.75 percent per annum when the utilization exceeds 50 percent. Borrowings under the revolving credit facility would currently accrue interest at LIBOR plus 2.5 percent, with interest periods of one, two, three or six months, or bank base rate plus 1.5 percent, as selected by Cricket, with the rate subject to adjustment based on the Company's leverage ratio. The new credit facilities are guaranteed by Leap and all of its direct and indirect domestic subsidiaries (other than Cricket, which is the primary obligor, ANB 1 and ANB 1 License) and are secured by all present and future personal property and owned real property of Leap, Cricket and such direct and indirect domestic subsidiaries.

A portion of the proceeds from the term loan borrowing were used to redeem Cricket's 13% senior secured pay-in-kind notes, to pay approximately \$43 million of call premium and accrued interest on such notes, to repay approximately \$41 million in principal amount of debt and accrued interest owed to the FCC, and to pay transaction fees and expenses. The remaining proceeds from the term loan borrowing of approximately \$60 million will be used for general corporate purposes.

Under the Credit Agreement, the Company is 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; and 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 or equity, 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 financial covenants which include a minimum interest coverage ratio, a maximum total leverage ratio, a maximum senior secured leverage ratio and a minimum fixed charge coverage ratio.

Affiliates of Highland Capital Management, L.P. (a beneficial shareholder of Leap and an affiliate of James D. Dondero, a director of Leap) participated in the syndication of the Company's new Credit Agreement in the following amounts: \$100 million of the \$500 million term loan and \$30 million of the \$110 million revolving credit facility.

At March 31, 2005, the interest rate on the \$500 million term loan was 5.6%. The terms of the Credit Agreement require that the Company enter into interest rate hedging agreements in an amount equal to at least 50% of its outstanding indebtedness. In accordance with this requirement, the Company entered into interest rate swap agreements with respect to \$250 million of its debt in April 2005. The swap agreements effectively fix the interest rate on \$250 million of debt at 6.7% through June 2007.

On April 15, 2005, the Company obtained a waiver of certain defaults and potential defaults under the Credit Agreement. The Company had not completed the preparation of its audited financial statements for the year ended December 31, 2004 by March 31, 2005 and, as a result, was not able to deliver such financial statements to the administrative agent under the Credit Agreement by such date. The failure to deliver such financial statements by March 31, 2005 was a default under the Credit Agreement. Accordingly, the Company requested and received from

the required lenders under the Credit Agreement a waiver of the Company's obligations to provide such audited financial statements to the administrative agent until May 16, 2005. The waiver also extended the Company's obligation to provide its unaudited financial statements for the quarter ended March 31, 2005 to the administrative agent until June 15, 2005, and waived any default under the Credit Agreement if the Company amended its financial

## **Table of Contents**

statements for the fiscal quarter ended September 30, 2004 or for any earlier period, provided certain conditions were met. The Company has met all of the requirements of the waiver in a timely manner.

### ***Senior Secured Pay-in-Kind Notes Issued Under Plan of Reorganization***

On the Effective Date of the Plan of Reorganization, Cricket issued new 13% senior secured pay-in-kind notes due 2011 with a face value of \$350 million and an estimated fair value of \$372.8 million. As of December 31, 2004, the carrying value of the notes was \$371.4 million. A portion of the proceeds from the term loan facility under the new Credit Agreement was used to redeem Cricket's 13% senior secured pay-in-kind notes. Upon repayment of these notes, the Company recorded a loss from debt extinguishment of approximately \$1.7 million which is included in other income (expense) in the condensed consolidated statement of operations for the three months ended March 31, 2005.

### ***US Government Financing***

The balance in current maturities of long-term debt at December 31, 2004 consisted entirely of debt obligations to the FCC incurred as part of the purchase price for wireless licenses. At July 31, 2004, the remaining principal of the FCC debt was revalued in connection with the Company's adoption of fresh-start reporting. The carrying value of this debt at December 31, 2004 was \$40.4 million, including a premium of \$0.4 million which was being amortized over the remaining term of the debt using the effective interest method. The balance was repaid in full in January 2005 with a portion of the term loan borrowing as noted above. Upon repayment of this debt, the Company recorded a gain from debt extinguishment of approximately \$0.4 million which is included in other income (expense) in the condensed consolidated statement of operations for the three months ended March 31, 2005.

### **Note 6. Income Taxes**

The Company estimates income taxes in each of the jurisdictions in which it operates. This process involves estimating the actual current tax liability together with assessing temporary differences resulting from differing treatments of items for tax and accounting purposes. These differences result in deferred tax assets and liabilities. Deferred tax assets are also established for the expected future tax benefits to be derived from tax loss and tax credit 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 that recovery is not likely, it must establish a valuation allowance. Significant management judgment is required in determining the provision for income taxes, deferred tax assets and liabilities and any valuation allowance recorded against net deferred tax assets. The Company has recorded a full valuation allowance on its net deferred tax asset balances for all periods presented because of uncertainties related to utilization of the deferred tax assets. At such time as it is determined that it is more likely than not that the deferred tax assets are realizable, the valuation allowance will be reduced. 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. Pursuant to SOP 90-7, future decreases in the valuation allowance established in fresh-start accounting are accounted for as a reduction in goodwill.

### **Note 7. Significant Acquisitions and Dispositions**

In February 2005, Cricket's wholly-owned subsidiary, Cricket Licensee (Reauction), Inc., was named the winning bidder in the FCC's Auction #58 for four wireless licenses for \$166.9 million. During the three months ended March 31, 2005, Cricket Licensee (Reauction), Inc. made additional payments to the FCC in the amount of \$151.9 million, increasing its total amounts paid to the FCC to \$166.9 million. The FCC approved the grants of these licenses on May 13, 2005. The FCC's order approving the transfer may be challenged or reconsidered during the 40-day period following the approval date.

In addition, in February 2005, ANB 1 License was named the winning bidder in Auction #58 for nine wireless licenses for \$68.2 million. The transfers of the wireless licenses to ANB 1 License are subject to FCC approval. Although the Company expects that such approvals will be issued in the normal course, there can be no assurance that the FCC will grant such approvals. During the three months ended March 31, 2005, Cricket made loans under

## **Table of Contents**

its senior secured credit facility with ANB 1 License in the aggregate principal amount of \$56.2 million. ANB 1 License paid these borrowed funds, together with \$4.0 million of equity contributions, to the FCC to increase its total FCC payments to \$68.2 million.

In March 2005, subsidiaries of Leap signed an agreement to sell 23 operating and non-operating wireless licenses and certain of the Company's operating assets in its Michigan markets for up to \$102.5 million. As described in Note 3, the long-lived assets included in this transaction, including wireless licenses with a carrying value of \$70.8 million, property and equipment with a net book value of \$15.3 million and intangible assets with a net book value of \$1.9 million, have been classified in assets held for sale in the condensed consolidated balance sheet as of March 31, 2005. Completion of the transaction is subject to, among other things, FCC approval and other customary closing conditions, including obtaining third party consents. The Company expects to complete the transaction in the near future.

### **Note 8. Commitments and Contingencies**

Cricket has agreed to purchase a wireless license to provide service in Fresno, California for approximately \$27.1 million (of which \$1.8 million has been paid as a deposit and classified in deposits for wireless licenses as of March 31, 2005 and December 31, 2004), plus the reimbursement of certain construction expenses previously incurred by the seller not to exceed \$500,000. The FCC approved the transfer of this license on May 13, 2005. The FCC's order approving the transfer may be challenged or reconsidered during the 40-day period following the approval date. A party involved in the bankruptcy of the seller filed an objection with the FCC to the Company's application for consent to assign the license and may challenge the FCC's approval of the transfer of the license to Cricket. The Company expects to complete the transaction in the near future.

In connection with the Chapter 11 proceedings, the Bankruptcy Court established deadlines by which the holders of pre-emergence claims against the Company were required to file proofs of claim. The final deadline for such claims, relating to claims that arose during the course of the bankruptcy, was October 15, 2004, 60 days after the Effective Date of the Plan of Reorganization. Parties who were required to, but who failed to, file proofs of claim before the applicable deadlines are barred from asserting such claims against the Company in the future. Generally the Company's obligations have been discharged with respect to general unsecured claims for pre-petition obligations, although the holders of allowed general unsecured pre-petition claims against Leap have (and holders of pending general unsecured claims against Leap may have) a pro rata beneficial interest in the assets of the Leap Creditor Trust. The Company reviewed the remaining claims filed against it (consisting primarily of claims for pre-petition taxes and for obligations incurred by the Company during the course of the Chapter 11 proceedings) and filed further objections by the Bankruptcy Court deadline of January 17, 2005. The Company does not believe that the resolution of the outstanding claims filed against it in bankruptcy will have a material adverse effect on the Company's consolidated financial statements.

Foreign governmental authorities have asserted or are likely to assert tax claims of approximately \$4.8 million, excluding interest and penalties, if any, against Leap with respect to periods prior to the bankruptcy, although the Company believes that the true value of these asserted or potential claims is lower. Leap likely did not mail notice of its bankruptcy filings or the proceedings in the Bankruptcy Court to these governmental authorities. The Company is exploring methods to bring the claims of these foreign authorities within the bankruptcy claims resolution process. If the claims are resolved through the Bankruptcy Court, the Company expects any payment on the claims will be paid from restricted cash previously reserved to satisfy allowed administrative claims and allowed priority claims against Leap. In any event, the Company does not believe that the resolution of these issues will have a material adverse effect on the Company's consolidated financial statements.

On December 31, 2002, several members of American Wireless Group, LLC, referred to 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



**Table of Contents**

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. Leap is not a defendant in the Whittington Lawsuit. 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 in an arbitration proceeding. Defendants filed a motion to compel arbitration or in the alternative, dismiss the Whittington Lawsuit, noting 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.

In a related action to the action described above, on June 6, 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. Leap is not a defendant in the AWG 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, dismiss the AWG Lawsuit, making arguments similar to those made in their motion to dismiss the Whittington Lawsuit.

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 and estimable; therefore, no accrual has been made in the Company's condensed consolidated financial statements as of March 31, 2005 related to these contingencies.

A third party with a large patent portfolio has contacted the Company and suggested that the Company needs to obtain a license under a number of patents in connection with the Company's current business operations. The Company understands that the third party has initiated similar discussions with other telecommunications carriers. The Company does not currently expect that the resolution of this matter will have a material adverse effect on the Company's consolidated financial statements.

The Company is 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, 2005 for such claims. In the opinion of the Company's management, the ultimate liability for such claims will not have a material adverse effect on the Company's consolidated financial statements.

**Table of Contents**

The Company has entered into non-cancelable operating lease agreements to lease its facilities, certain equipment and sites for towers and antennas required for the operation of its wireless networks. These leases typically include renewal options and escalation clauses. In general, site leases for towers and antennas have five year initial terms with four five year renewal options. The following table summarizes the approximate future minimum rentals under non-cancelable operating leases, including renewals that are reasonably assured, in effect at March 31, 2005 (in thousands):

**Year Ended December 31:**

Remainder of 2005	\$ 41,847
2006	36,701
2007	21,289
2008	18,751
2009	16,303
Thereafter	81,610
Total	\$ 216,501

**Table of Contents**

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

*As used in this report, the terms we, our, ours and us refer to Leap Wireless International, Inc., a Delaware corporation, and its subsidiaries, unless the context suggests otherwise. Leap refers to Leap Wireless International, Inc., and Cricket refers to Cricket Communications, Inc. Unless otherwise specified, information relating to population and potential customers, or POPs, is based on 2005 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, 2005 filed with the Securities and Exchange Commission on March 27, 2006.

Except for the historical information contained herein, this document contains forward-looking statements reflecting management's current forecast of certain aspects of our future. These forward-looking statements are subject to a number of 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;

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

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;

failure of network systems to perform according to expectations;

our ability to comply with the covenants in our senior secured credit facilities;

failure of the Federal Communications Commission, or the FCC, to approve the transfers: (a) to a third party of the wireless licenses covered by the asset purchase agreement between Cricket Communications, Inc., the third party and the other parties to such agreement; and (b) to Alaska Native Broadband 1 License, LLC, or ANB 1 License, of the wireless licenses for which it was the winning bidder in the FCC's Auction #58;

global political unrest, including the threat or occurrence of war or acts of terrorism; and

other factors detailed in the section entitled "Risk Factors" included in this report.

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.

## Overview

*Restatement of Previously Reported Unaudited Interim Consolidated Financial Information.* The accompanying Management's Discussion and Analysis of Financial Condition and Results of Operations gives effect to certain restatement adjustments made to the previously reported consolidated financial information of the Successor Company for the quarterly period ended March 31, 2005. See Note 3 to the condensed consolidated financial statements included in Part I Item 1 of this report.

*Our Business.* We conduct our business primarily through Cricket. Cricket provides mobile wireless services targeted to meet the needs of customers who are under-served by traditional communications companies. Our Cricket service is a simple and affordable wireless alternative to traditional landline service. Our basic Cricket

## **Table of Contents**

service offers customers virtually unlimited anytime minutes within the Cricket calling area over a high-quality, all-digital CDMA network. Our revenues come from the sale of wireless services, handsets and accessories to customers. Our liquidity and capital resources come primarily from our existing cash, cash equivalents and short-term investments, cash generated from operations, and cash available from borrowings under our revolving credit facility.

Cricket operates in 39 markets in 20 states stretching from New York to California. At March 31, 2005, we had approximately 1,615,000 customers and the total potential customer base covered under our 39 operating markets was approximately 26.7 million. In February 2005, a wholly-owned subsidiary of Cricket was named the winning bidder in the FCC's Auction #58 for four wireless licenses covering approximately 11.1 million potential customers. We acquired these licenses in May 2005. We currently expect to build out and launch commercial operations in the markets covered by these licenses and are developing plans for such build-outs. In addition, in February 2005, a subsidiary of Alaska Native Broadband 1, LLC, an entity in which we own a 75% non-controlling interest and which is referred to in this report as ANB 1, was the winning bidder in Auction #58 for nine wireless licenses covering approximately 10.1 million potential customers. The transfers of the wireless licenses to ANB 1's subsidiary are subject to FCC approval. Although we expect that such approvals will be issued in the normal course, there can be no assurance that the FCC will grant such approvals. We expect that we will seek additional capital to increase our liquidity and help assure we have sufficient funds for the build-out and initial operation of our new licenses and to finance the build-out and initial operation of the licenses ANB 1 expects to acquire through its subsidiary. For a further discussion of our arrangements with Alaska Native Broadband, see Item 1. Business Arrangements with Alaska Native Broadband in our Annual Report on Form 10-K for the year ended December 31, 2004 as originally filed with the Securities and Exchange Commission on May 16, 2005.

*Voluntary Reorganization Under Chapter 11.* On April 13, 2003, Leap, Cricket and substantially all of their subsidiaries filed voluntary petitions for relief under Chapter 11 in the U.S. Bankruptcy Court for the Southern District of California. On August 5, 2004, all material conditions to the effectiveness of the Plan of Reorganization were resolved and, on August 16, 2004, the Plan of Reorganization became effective and the Company emerged from Chapter 11 bankruptcy. On that date, a new Board of Directors of Leap was appointed, our previously existing stock, options and warrants were cancelled, and Leap issued 60 million shares of new Leap common stock for distribution to two classes of creditors.

Our Plan of Reorganization implemented a comprehensive financial reorganization that significantly reduced our outstanding indebtedness. When the Plan of Reorganization became effective on August 16, 2004, our long-term debt was reduced from a book value of more than \$2.4 billion to debt with an estimated fair value of \$412.8 million, consisting of new Cricket 13% senior secured pay-in-kind notes due 2011 with a face value of \$350 million and an estimated fair value of \$372.8 million and approximately \$40 million of remaining indebtedness to the FCC. On January 10, 2005, we entered into new senior secured credit facilities and used a portion of the proceeds from the \$500 million term loan included as a part of such facilities to redeem Cricket's 13% senior secured pay-in-kind notes and to repay the remaining indebtedness to the FCC. The new facilities consist of a six-year \$500 million term loan and a five-year \$110 million revolving credit facility.

*Fresh-Start Reporting.* In connection with our emergence from Chapter 11, we adopted the fresh-start reporting provisions of Statement of Position 90-7, Financial Reporting by Entities in Reorganization under the Bankruptcy Code, or SOP 90-7, as of July 31, 2004. Under SOP 90-7, reorganization value represents the fair value of the entity before considering liabilities and approximates the amount a willing buyer would pay for the assets of the entity immediately after the reorganization. In implementing fresh-start reporting, we allocated our reorganization value to the fair value of our assets in conformity with procedures specified by SFAS No. 141, Business Combinations, and stated our liabilities, other than deferred taxes, at the present value of amounts expected to be paid. The amount remaining after allocation of the reorganization value to the fair value of our identified tangible and intangible assets is reflected as goodwill, which is subject to periodic evaluation for impairment. In addition, under fresh-start

reporting, our accumulated deficit was eliminated and new equity was issued according to the Plan of Reorganization. See further discussion of fresh-start reporting in our Annual Report on Form 10-K for the year ended December 31, 2004, as originally filed, and in our Annual Report on Form 10-K for the year ended December 31, 2005.

**Table of Contents**

This overview is intended to be only a summary of significant matters concerning our results of operations and financial condition. It should be read in conjunction with the management discussion below and all of the business and financial information contained in this report, including the condensed consolidated financial statements in Item 1 of this Quarterly Report, as well as our Annual Report on Form 10-K for the year ended December 31, 2005.

**Results of Operations**

As a result of our emergence from Chapter 11 bankruptcy and the application of fresh-start reporting, we are deemed to be a new entity for financial reporting purposes. In this report, the Company is referred to as the Predecessor Company for periods on or prior to July 31, 2004, and is referred to as the Successor Company for periods after July 31, 2004, after giving effect to the implementation of fresh-start reporting. The financial statements of the Successor Company are not comparable in many respects to the financial statements of the Predecessor Company because of the effects of the consummation of the Plan of Reorganization as well as the adjustments for fresh-start reporting.

***Financial Performance***

The following table presents the consolidated statement of operations data for the periods indicated (in thousands). This data has been derived from interim condensed consolidated financial statements that have been restated for the three months ended March 31, 2005 to reflect adjustments that are further discussed in Note 3 of the condensed consolidated financial statements included in Part 1 Item 1 of this report.

	<b>Successor Company Three Months Ended March 31, 2005 (As Restated)</b>	<b>Predecessor Company Three Months Ended March 31, 2004</b>
Revenues:		
Service revenues	\$ 185,981	\$ 169,051
Equipment revenues	42,389	37,771
Total revenues	228,370	206,822
Operating expenses:		
Cost of service (exclusive of items shown separately below)	(50,197)	(48,000)
Cost of equipment	(49,178)	(43,755)
Selling and marketing	(22,995)	(23,253)
General and administrative	(36,035)	(38,610)
Depreciation and amortization	(48,104)	(75,461)
Total operating expenses	(206,509)	(229,079)
Operating income (loss)	21,861	(22,257)
Interest income	1,903	
Interest expense	(9,123)	(1,823)

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

Other income (expense), net	(1,286)	19
Income (loss) before reorganization items and income taxes	13,355	(24,061)
Reorganization items, net		(2,025)
Income (loss) before income taxes	13,355	(26,086)
Income taxes	(5,839)	(1,944)
Net income (loss)	\$ 7,516	\$ (28,030)



**Table of Contents**

***Three Months Ended March 31, 2005 Compared to the Three Months Ended March 31, 2004***

At March 31, 2005, we had approximately 1,615,000 customers compared to approximately 1,538,000 customers at March 31, 2004. Gross customer additions during the three months ended March 31, 2005 and 2004 were approximately 201,000 and 207,000, respectively, and net customer additions during these periods were approximately 45,000 and 66,000, respectively. At March 31, 2005, the total potential customer base covered under our 39 operating markets was approximately 26.7 million.

During the three months ended March 31, 2005, service revenues increased \$16.9 million, or 10%, compared to the corresponding period of the prior year. Higher average customers contributed \$10.1 million of the increase. Higher average revenues per customer contributed the remaining \$6.8 million of the increase, including a \$1.0 million increase in service revenue associated with reduced mail-in rebate activity. Beginning in the fourth quarter of 2003, we modified our service offerings by bundling additional products and features designed to increase value to customers and improve average revenue per customer. Since their introduction, these higher priced service plans have represented a significant portion of our gross customer additions and have increased our average service revenue per customer.

During the three months ended March 31, 2005, equipment revenues increased \$4.6 million, or 12%, compared to the corresponding period of the prior year. Of this total, an increase of \$1.7 million which resulted from an increase of approximately 5% in the number of handsets sold compared to the corresponding period of the prior year and a further increase of \$4.1 million which resulted from an increased mix of higher priced handsets sold, were partially offset by a decrease of \$1.3 million in activation fees included in equipment revenue.

During the three months ended March 31, 2005, cost of service increased \$2.2 million, or 5%, compared to the corresponding period of the prior year. The increase in cost of service was primarily attributable to an increase of \$1.6 million in costs associated with value-added features such as long distance, directory assistance, messaging, and BREW (a registered trademark of Qualcomm) based data services, an increase of \$1.8 million related to interconnect costs due to a one-time credit received during the three months ended March 31, 2004, and an increase of \$0.4 million related to cell site lease costs. These increases were partially offset by a decrease of \$1.6 million in employee related costs and \$0.5 million of other network operating expenses. During 2005, we expect the variable costs associated with usage and value-added features to continue to increase as our customer base grows and the adoption of add-on products accelerates. Additionally, we expect that the launch of the Fresno market in the second half of 2005 will increase fixed network infrastructure costs.

During the three months ended March 31, 2005, cost of equipment increased \$5.4 million, or 12%, compared to the corresponding period of the prior year. The increase in cost of equipment was primarily attributable to an increase of \$6.0 million related to the increase in the number of handsets sold as well as an increase in the mix of higher-cost handsets sold. This increase was partially offset by a decrease of \$0.6 million in reverse logistics costs.

During the three months ended March 31, 2005, selling and marketing expenses remained relatively constant compared to the corresponding period of the prior year. A decrease of \$1.2 million, primarily related to employee-related expenses, was partially offset by an increase of \$0.9 million in advertising and other related expenses.

During the three months ended March 31, 2005, general and administrative expenses decreased \$2.6 million, or 7%, compared to the corresponding period of the prior year. The decrease in general and administrative expenses was due to a decrease of \$3.5 million in call center costs and a decrease of \$0.5 million in insurance costs partially offset by an increase in professional services of \$0.9 million and an increase of \$0.5 million in employee and other general expenses.

During the three months ended March 31, 2005, depreciation and amortization expenses decreased \$27.4 million, or 36%, compared to the corresponding period of the prior year. The decrease in depreciation expense was primarily due to the revision of the estimated useful lives of network equipment and the reduction in the carrying value of property and equipment as a result of fresh-start accounting at July 31, 2004. As a result of this change, depreciation expense was reduced by approximately \$30.8 million for the three months ended March 31, 2005 compared to what it would have been if the useful lives had not been revised. In addition, depreciation and amortization expense for the three months ended March 31, 2005 included amortization expense of \$8.7 million related to identifiable intangible assets recorded upon the adoption of fresh-start accounting.

**Table of Contents**

During the three months ended March 31, 2005, interest expense increased \$7.3 million, or 400%, compared to the corresponding period of the prior year. The increase in interest expense resulted from the application of SOP 90-7 during the three months ended March 31, 2004, which required that, commencing on April 13, 2003, the date of the filing of the Company's bankruptcy petition, or the Petition Date, we cease to accrue interest and amortize debt discounts and debt issuance costs on pre-petition liabilities that were subject to compromise, which comprised substantially all of our debt. Upon our emergence from bankruptcy, we began accruing interest on the newly issued 13% senior secured pay-in-kind notes. The 13% notes were repaid in January 2005 and replaced with a \$500 million term loan that accrues interest at a variable rate. Upon closing of the \$500 million term loan on January 10, 2005, we issued a call notice on the 13% pay-in-kind notes and retired the 13% pay-in-kind notes on January 25, 2005, at the end of the call notice period. The 15 day call notice period on the 13% pay-in-kind notes resulted in interest of \$1.9 million for the three months ended March 31, 2005 in addition to the interest on the \$500 million term loan which began accruing on January 10, 2005.

During the three months ended March 31, 2005, there were no reorganization items. Reorganization items for the three months ended March 31, 2004 represent amounts incurred by the Predecessor Company as a direct result of the Chapter 11 filings and consisted primarily of \$2.2 million of professional fees for legal, financial advisory and valuation services directly associated with the Company's Chapter 11 filings and reorganization process.

During the three months ended March 31, 2005, we recorded income tax expense of \$5.8 million compared to income tax expense of \$1.9 million for the three months ended March 31, 2004. Income tax expense for the three months ended March 31, 2004 consisted primarily of the tax effect of the amortization, for income tax purposes, of wireless licenses related to deferred tax liabilities. During the three months ended March 31, 2005, we recorded income tax expense at an effective tax rate of 43.7%. Despite the fact that we have recorded a full valuation allowance on our deferred tax assets, we recognized income tax expense for the quarter ended March 31, 2005 because 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. The effective tax rate for the first quarter of 2005 was higher than the statutory tax rate due primarily to permanent items not deductible for tax purposes. We expect to incur tax losses for 2005 due to, among other things, tax deductions associated with the repayment of the 13% senior secured pay-in-kind notes. Therefore, we expect to pay only minimal cash taxes for 2005.

***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 Securities and Exchange Commission, 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 consolidated balance sheet, consolidated statement of operations or consolidated statement 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 an industry metric that measures 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

**Table of Contents**

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.

CPGA is an industry metric that represents selling and marketing costs and the gain or loss on sale of handsets (generally defined as cost of equipment less equipment revenue), excluding costs unrelated to initial customer acquisition, divided by the total number of gross new customer additions during the period being measured. Costs unrelated to initial customer acquisition include 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 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.

CCU is an industry metric that measures cost of service, general and administrative costs, 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.

Churn, an industry metric that 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. As noted above, customers who do not pay their first monthly bill are deducted from our gross customer additions; 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.

The following table shows metric information for the three months ended March 31, 2005 and 2004:

<b>Successor Company</b>	<b>Predecessor Company</b>
<b>Three Months Ended March 31,</b>	
<b>2005</b>	<b>2004</b>

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

ARPU	\$ 39.03	\$ 37.45
CPGA	\$ 128	\$ 124
CCU	\$ 18.94	\$ 20.08
Churn	3.3%	3.1%

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

We utilize certain financial measures, as described above, that are calculated based on industry conventions and 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):

	<b>Successor Company Three Months Ended, March 31, 2005</b>	<b>Predecessor Company Three Months Ended, March 31, 2004</b>
Selling and marketing expense	\$ 22,995	\$ 23,253
Plus cost of equipment	49,178	43,755
Less equipment revenue	(42,389)	(37,771)
Less net loss on equipment transactions unrelated to initial customer acquisition	(4,012)	(3,667)
<b>Total costs used in the calculation of CPGA</b>	<b>\$ 25,772</b>	<b>\$ 25,570</b>
Gross customer additions	201,467	206,941
<b>CPGA</b>	<b>\$ 128</b>	<b>\$ 124</b>

**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):

	<b>Successor Company Three Months Ended March 31, 2005</b>	<b>Predecessor Company Three Months Ended March 31, 2004</b>
Cost of service	\$ 50,197	\$ 48,000
Plus general and administrative expense	36,035	38,610
Plus net loss on equipment transactions unrelated to initial customer acquisition	4,012	3,667
<b>Total costs used in the calculation of CCU</b>	<b>\$ 90,244</b>	<b>\$ 90,277</b>
Weighted-average number of customers	1,588,372	1,498,449
<b>CCU</b>	<b>\$ 18.94</b>	<b>\$ 20.08</b>

## **Liquidity and Capital Resources**

Our principal sources of liquidity are our existing cash, cash equivalents and short-term investments, cash generated from operations, and cash available from borrowings under our revolving credit facility. From time to time, we may also generate additional liquidity through the sale of assets that are not required for the ongoing operation of our business. We may also generate liquidity from offerings of debt and/or equity in the capital markets. At March 31, 2005, we had a total of \$121.6 million in unrestricted cash, cash equivalents and short-term investments. As of March 31, 2005, we also had restricted cash, cash equivalents and short-term investments of \$30.9 million that included funds set aside or pledged to satisfy remaining administrative claims and priority claims against Leap and Cricket, and cash restricted for other purposes. We believe that our existing cash and investments, anticipated cash flows from operations, and available credit facilities will be sufficient to meet our operating and capital requirements through at least the next 12 months.



**Table of Contents**

Cash provided by operating activities was \$23.5 million during the three months ended March 31, 2005 compared to \$40.8 million during the three months ended March 31, 2004. The decrease was primarily attributable to the timing of payments on accounts payable and interest payments on Cricket's 13% senior secured pay-in-kind notes and the FCC debt, partially offset by higher net income (net of depreciation and amortization expense) in the three months ended March 31, 2005.

Cash used in investing activities was \$221.6 million during the three months ended March 31, 2005 compared to \$30.4 million during the three months ended March 31, 2004. This increase was due primarily to payments by subsidiaries of Cricket and ANB 1 of the purchase price of wireless licenses totaling \$212.1 million.

Cash provided by financing activities during the three months ended March 31, 2005 was \$79.2 million, which consisted of borrowings under our new term loan of \$500.0 million, less amounts which were used to repay the FCC debt of \$40.0 million, the pay-in-kind notes of \$372.7 million and the new term loan of \$1.3 million and payment of debt financing costs of \$6.8 million.

***New Credit Agreement***

On January 10, 2005, we entered into a new senior secured Credit Agreement with a syndicate of lenders and Bank of America, N.A. (as administrative agent and letter of credit issuer).

The facilities under the new Credit Agreement consist of a six-year \$500 million term loan, which was fully drawn at closing, and an undrawn five-year \$110 million revolving credit facility. Under the Credit Agreement, the term loan bears interest at LIBOR plus 2.5 percent, with interest periods of one, two, three or six months, or bank base rate plus 1.5 percent, as selected by Cricket. Outstanding borrowings under the term loan must be repaid in 20 quarterly payments of \$1.25 million each, commencing March 31, 2005, followed by four quarterly payments of \$118.75 million each, commencing March 31, 2010. The maturity date for outstanding borrowings under the revolving credit facility is January 10, 2010. The commitment of the lenders under the \$110 million revolving credit facility may be reduced in the event mandatory prepayments are required under the Credit Agreement and by one-twelfth of the original aggregate revolving credit commitment on January 1, 2008 and by one-sixth of the original aggregate revolving credit commitment on January 1, 2009 (each such amount to be net of all prior reductions) based on certain leverage ratios and other tests. The commitment fee on the revolving credit facility is payable quarterly at a rate of 1.0 percent per annum when the utilization of the facility (as specified in the Credit Agreement) is less than 50 percent and at 0.75 percent per annum when the utilization exceeds 50 percent. Borrowings under the revolving credit facility will accrue interest at LIBOR plus 2.5 percent, with interest periods of one, two, three or six months, or bank base rate plus 1.5 percent, as selected by Cricket, with the rate subject to adjustment based on our leverage ratio. The new credit facilities are guaranteed by Leap and all of its direct and indirect domestic subsidiaries (other than Cricket, which is the primary obligor, ANB 1 and ANB 1 License) and are secured by all present and future personal property and owned real property of Leap, Cricket and such direct and indirect domestic subsidiaries.

A portion of the proceeds from the term loan borrowing was used to redeem Cricket's \$350 million 13% senior secured pay-in-kind notes, to pay approximately \$43 million of call premium and accrued interest on such notes, to repay approximately \$41 million in principal amount of debt and accrued interest owed to the FCC, and to pay transaction fees and expenses. The remaining proceeds from the term loan borrowing of approximately \$60 million will be used for general corporate purposes.

Under the Credit Agreement, we are subject to certain limitations, including limitations on our ability: (1) to incur additional debt or sell assets, with restrictions on the use of proceeds; (2) to make certain investments and acquisitions; (3) to grant liens; and (4) to pay dividends and make certain other restricted payments. In addition, we will be required to pay down the facilities under certain circumstances if we issue debt or equity, sell assets or

property, receive certain extraordinary receipts or generate excess cash flow (as defined in the Credit Agreement). We are also required to maintain compliance with financial covenants which include a minimum interest coverage ratio, a maximum total leverage ratio, a maximum senior secured leverage ratio and a minimum fixed charge coverage ratio.

## **Table of Contents**

Affiliates of Highland Capital Management, L.P. (a beneficial shareholder of Leap and an affiliate of James D. Dondero, a director of Leap) participated in the syndication of the Company's new Credit Agreement in the following amounts: \$100 million of the \$500 million term loan and \$30 million of the \$110 million revolving credit facility.

On April 15, 2005, we obtained a waiver of certain defaults and potential defaults under the Credit Agreement. We had not completed the preparation of our audited financial statements for the year ended December 31, 2004 by March 31, 2005 and, as a result, we were not able to deliver such financial statements to the administrative agent under the Credit Agreement by such date. The failure to deliver such financial statements by March 31, 2005 was a default under the Credit Agreement. Accordingly, we requested and received from the required lenders under the Credit Agreement a waiver of our obligation to provide such audited financial statements to the administrative agent until May 16, 2005. The waiver also extended our obligation to provide our unaudited financial statements for the quarter ended March 31, 2005 to the administrative agent until June 15, 2005, and waived any default under the Credit Agreement if we amended our financial statements for the fiscal quarter ended September 30, 2004 or for any earlier period, provided certain conditions were met. We have met all of the requirements of the waiver in a timely manner.

### ***Capital Expenditures and Other Asset Acquisitions and Dispositions***

During the three months ended March 31, 2005, we incurred approximately \$24.5 million in capital expenditures. We currently expect to incur between \$175 million and \$230 million in capital expenditures for the year ending December 31, 2005, primarily for maintenance and improvement of our existing wireless networks, for the build-out and launch of the Fresno, California market and the related expansion and network change-out of the Company's existing Visalia and Modesto/Merced markets, and costs associated with the initial development of markets covered by licenses acquired as a result of Auction #58 and costs to be incurred by ANB 1 in connection with the initial development of licenses ANB 1 expects to acquire as a result of its participation in Auction #58. We expect to finance these \$175 million to \$230 million of capital expenditures with our existing cash, cash equivalents and short-term investments, cash obtained from borrowings under our revolving credit facility and cash generated from operations and sales of assets.

Cricket has agreed to purchase a wireless license to provide service in Fresno, California for approximately \$27.1 million (of which \$1.8 million was paid as a deposit and classified in deposits for wireless licenses as of March 31, 2005 and December 31, 2004), plus the reimbursement of certain construction expenses previously incurred by the seller not to exceed \$500,000. The FCC approved the transfer of this license on May 13, 2005. We have invested significant resources in building out this market. We expect to complete the transaction in the near future.

In February 2005, our wholly-owned subsidiary, Cricket Licensee (Reauction), Inc., was named the winning bidder in the FCC's Auction #58 for four wireless licenses covering approximately 11.1 million potential customers. In March 2005, we paid \$151.9 million to the FCC, increasing the total amount paid to the FCC for Auction #58 to \$166.9 million, the aggregate purchase price for the four licenses. The FCC approved the grant of these licenses on May 13, 2005.

ANB 1's wholly-owned subsidiary, Alaska Native Broadband 1 License, LLC, or ANB 1 License, was named the winning bidder in Auction #58 for nine wireless licenses covering approximately 10.1 million potential customers. In March 2005, we made a \$3.0 million equity contribution to ANB 1, which in turn contributed such amounts to ANB 1 License. Also in March 2005, we made loans under our senior secured credit facility with ANB 1 License in the aggregate amount of \$56.2 million. ANB 1 License paid such monies to the FCC, together with a \$1.0 million equity contribution from its controlling member, Alaska Native Broadband, LLC, to increase its total amounts paid to the FCC to \$68.2 million, the aggregate purchase price for the nine licenses. Under our senior secured credit facility with

ANB 1 License, we have committed to loan ANB 1 License up to \$4.5 million in additional funds to finance its initial build-out costs and working capital requirements. ANB 1 License will need to obtain additional capital from Cricket or another third party to build out and launch its networks.

We currently expect to build out and launch commercial operations in the markets covered by the licenses we have acquired as a result of Auction #58. Pursuant to a management services agreement, we are also providing

**Table of Contents**

services to ANB 1 License with respect to planning for the build-out and launch of the licenses it expects to acquire in connection with Auction #58. See Item 1. Business-Arrangements with Alaska Native Broadband in our Annual Report on Form 10-K for the year ended December 31, 2004, as originally filed, for further discussion of our arrangements with Alaska Native Broadband. We expect that we will seek additional capital to increase our liquidity and help assure we have sufficient funds for the build-out and initial operation of our planned new markets and to finance the build-out and initial operation of the licenses that ANB 1 License expects to acquire.

In March 2005, subsidiaries of Leap signed an agreement to sell 23 operating and non-operating wireless licenses and certain of our operating assets in our Michigan markets for up to \$102.5 million. Completion of the transaction is subject to FCC approval and other customary closing conditions, including obtaining third party consents and finalizing a transition services agreement. Although we expect to receive such approval and satisfy such conditions, we cannot assure you that the FCC will grant such approval or that the other conditions will be satisfied. The transaction is expected to be completed in the near future. Due to the relatively small size of the Michigan operating markets as compared to our remaining operating markets, this sale is not expected to have a material impact on the Company's revenues, operating income or cash flows from operations.

***Certain Contractual Obligations and Commitments***

The table below summarizes information as of March 31, 2005 regarding certain future minimum contractual obligations and commitments for Leap and Cricket for the next five years and thereafter (in thousands):

	<b>Total</b>	<b>Remainder of 2005</b>	<b>Year Ended December 31,</b>				
			<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>Thereafter</b>
Long-term debt(1)	\$ 498,750	\$ 3,750	\$ 5,000	\$ 5,000	\$ 5,000	\$ 5,000	\$ 475,000
Fresno license purchase	25,800	25,800					
Origination fees for ANB 1 investment	5,280	5,280					
Operating leases	216,501	41,847	36,701	21,289	18,751	16,303	81,610
<b>Total</b>	<b>\$ 746,331</b>	<b>\$ 76,677</b>	<b>\$ 41,701</b>	<b>\$ 26,289</b>	<b>\$ 23,751</b>	<b>\$ 21,303</b>	<b>\$ 556,610</b>

(1) Amounts shown for Cricket's term loan under the new credit facilities executed on January 10, 2005 include principal only.

The table above does not include the following contractual obligations relating to ANB 1, a company which we consolidate under FASB Interpretation No. 46-R: (1) Cricket's obligation to loan to ANB 1 License up to \$4.5 million to finance its initial build-out costs and working capital requirements, which commitment remained undrawn at March 31, 2005 and (2) Cricket's obligation to pay \$2.0 million to ANB if ANB exercises its right to sell its membership interest in ANB 1 to Cricket following the initial build-out of ANB 1 License's wireless licenses.

***Off-Balance Sheet Arrangements***

We had no material off-balance sheet arrangements at March 31, 2005.



**Table of Contents**

**RISK FACTORS**

**Risks Related to Our Business and Industry**

**We Have Experienced Net Losses Since Inception And We May Not Be Profitable In The Future**

We experienced losses of \$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. In addition, we experienced net losses of \$597.4 million for the year ended December 31, 2003, \$664.8 million for the year ended December 31, 2002, \$483.3 million for the year ended December 31, 2001 and \$0.2 million for the year ended December 31, 2000. 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 and on the value of the common stock of Leap.

**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 the Cricket service plan (and have also introduced products that consumers perceive to be similar to Cricket's service plan) in markets in which we offer wireless service. In addition, the competitive pressures of the wireless telecommunications market have caused other carriers to offer service plans with large bundles of minutes of use at low prices which are competing with the predictable and virtually unlimited Cricket calling plans. Some competitors also offer prepaid wireless plans that are being advertised heavily to demographic segments that are strongly represented in Cricket's customer base. These competitive offerings could adversely affect our ability to maintain our pricing and market penetration. 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.

We compete as a mobile alternative to landline service providers in the telecommunications industry. Wireline carriers have begun to advertise aggressively in the face of increasing competition from wireless carriers, cable operators and other competitors. Wireline carriers are also offering unlimited national calling plans and bundled offerings that include wireless and data services. We may not 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.

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. As consolidation in the industry creates even larger competitors, any purchasing advantages our competitors have may increase.

**We May Not Be Successful In Increasing Our Customer Base Which Would Force Us To Change Our Business Plans And Financial Outlook And Would Likely Negatively Affect The Price Of Our Stock**

Our growth on a quarter by quarter basis has varied substantially in the recent past. In the first quarter of 2003, we gained approximately 1,000 net customers but we lost approximately 54,000 net customers in the second quarter of 2003. Net customers increased by approximately 18,000 in the third quarter of 2003, but decreased by approximately 4,000 during the fourth quarter of 2003. During the first and second quarters of 2004, we experienced a net increase of approximately 65,700 customers and 9,000 customers, respectively, but lost approximately 8,000 net customers in the third quarter of 2004. During the fourth quarter of 2004 and the first quarter of 2005, we gained approximately 30,000 net customers and approximately 45,000 net customers, respectively. We believe that this uneven growth over the last several quarters generally reflects seasonal trends in customer activity, promotional activity, the competition in

the wireless telecommunications market, our attenuated 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, we would be forced to change our current business plans and financial outlook and there would likely be a material negative affect on the price of our common stock.



**Table of Contents**

**We Have Identified Material Weaknesses In Our Internal Control Over Financial Reporting, And Our Business And Stock Price May Be Adversely Affected If We Do Not Remediate These Material Weaknesses, Or If We Have Other Material Weaknesses Or Significant Deficiencies In Our Internal Control Over Financial Reporting**

In connection with their evaluation of our disclosure controls and procedures, our CEO and CFO concluded that certain material weaknesses in our internal control over financial reporting existed as of March 31, 2005 with respect to turnover and staffing levels in our accounting, financial reporting and tax departments (arising in part in connection with the Company's now completed bankruptcy proceedings), the preparation of our income tax provision, the application of lease-related accounting principles, fresh-start reporting oversight, and account reconciliation procedures. As a result of these material weaknesses, our CEO and CFO concluded that our disclosure controls and procedures were not effective at the reasonable assurance level as of the end of the period covered by this report. For a description of these material weaknesses and the steps we are undertaking to remediate these material weaknesses, see Item 4. Controls and Procedures contained in Part I of this report. The existence of one or more material weaknesses or significant deficiencies could result in errors in our financial statements, and substantial costs and resources may be required to rectify any internal control deficiencies. If we cannot produce reliable financial reports, investors could lose confidence in our reported financial information, the market price of our 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 Internal Control Over Financial Reporting Was Not Effective as of December 31, 2005, and Our Business May Be Adversely Affected if We Are Not Able to Implement Effective Control Over Financial Reporting**

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 auditors are required to attest to and report on management's assessment. Reporting on our compliance with Section 404 of the Sarbanes-Oxley Act was first required in connection with the filing of our Annual Report on Form 10-K for the fiscal year ended December 31, 2005. We conducted a rigorous review of our internal control over financial reporting in order to become compliant with the requirements of Section 404. The standards that must be met for management to assess our internal control over financial reporting are new and require significant documentation and testing. Our assessment identified the need for remediation of our internal control over financial reporting. Our internal control over financial reporting has been subject to certain material weaknesses in the past and is currently subject to material weaknesses related to staffing levels and preparation of our income tax provision as described in Item 4. Controls and Procedures in Part I of this report. Our management concluded and our independent registered public accounting firm has attested and reported that our internal control over financial reporting was not effective as of December 31, 2005. If we are unable to implement effective control over financial reporting, investors could lose confidence in our reported financial information, we may be unable to obtain additional financing to operate and expand our business, and our business and financial condition could be harmed.

**If We Experience High Rates Of Customer Turnover or Credit Card, Subscription or Dealer Fraud, Our Ability To Become Profitable Will Decrease**

Customer turnover, frequently referred to as churn, is an important business metric in the telecommunications industry because it can have significant financial effects. Because we do not require customers to sign long-term commitments or pass a credit check, our service is available to a broader customer base than many other wireless providers and, as a result, some of our customers may be more likely to terminate service for inability to pay than the average industry customer. In addition, our rate of customer turnover may be affected by other factors, including the size of our calling

areas, handset issues, customer care concerns, 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

## **Table of Contents**

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.

Our operating costs can also increase substantially as a result of customer credit card and subscription fraud and 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, it would have a material adverse impact on our financial condition and results of operations.

### **Our Primary Business Strategy May Not Succeed In The Long Term**

A major element of our business strategy is to offer consumers a service that allows them to make virtually unlimited calls within their Cricket service area and receive unlimited calls from any area for a flat monthly rate without entering into a long-term service commitment or passing a credit check. This strategy may not prove to be successful in the long term. From time to time, we also evaluate our service offerings and the demands of our target customers and may modify, change or adjust our service offerings or offer new services. We cannot assure you that these service offerings will be successful or prove to be profitable.

### **Our Indebtedness Could Adversely Affect Our Financial Health, And If We Fail To Maintain Compliance With The Covenants Under Our Senior Secured Credit Facilities, Any Such Failure Could Materially Adversely Affect Our Liquidity And Financial Condition**

As of May 31, 2005, we had approximately \$499 million of outstanding indebtedness and, to the extent we raise additional capital in the future, we expect to obtain much of such capital through debt financing. This existing indebtedness bears interest at a variable rate, but we have entered into interest rate swap agreements with respect to \$250 million of our debt which mitigates the interest rate risk. Our present and future debt financing could have important consequences. For example, it could:

- Increase our vulnerability to general adverse economic and industry conditions;

- Require us to dedicate a substantial portion of our cash flows from operations to payments on our indebtedness, thereby reducing the availability of our cash flows to fund working capital, capital expenditures, acquisitions and other general corporate purposes;

- Limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate; and

- Reduce the value of stockholders' investments in Leap because debt holders have priority regarding our assets in the event of a bankruptcy or liquidation.

In addition, the Credit Agreement governing our senior secured credit facilities contains restrictive covenants that limit our ability to engage in activities that may be in our long-term best interest. The Credit Agreement also contains various affirmative and negative covenants, including covenants that require us to maintain compliance with certain financial leverage and coverage ratios. Our failure to comply with any of these covenants could result in an event of default that, if not cured or waived, could result in the acceleration of all of our debt. Any such acceleration would have a material adverse effect on our liquidity and financial condition and on the value of the common stock of Leap. Our failure to timely file our Annual Report on Form 10-K for the year ended December 31, 2004 and this Quarterly Report on Form 10-Q constituted defaults under the Credit Agreement. Although we were able to obtain a limited waiver of these defaults, we cannot assure you that we will be able to obtain a waiver in the future should a default

occur.

**We Expect To Be Able To Incur Substantially More Debt; This Could Increase The Risks Associated With Our Leverage**

The covenants in our Credit Agreement allow us to incur substantial additional indebtedness in the future. If we incur additional indebtedness, the risks associated with our leverage could increase substantially.

**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. The cost of implementing future technological innovations may be prohibitive to us, and we may lose customers if we fail to keep up with these changes.

**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 maintaining our experienced workforce. We do not, however, generally provide employment contracts to our employees and the uncertainties associated with our bankruptcy and our emergence from bankruptcy have caused many employees to consider or pursue alternative employment. Since we announced reorganization discussions and filed for Chapter 11, we have experienced higher than normal employee turnover, including turnover of individuals at the chief executive officer, president and chief operating officer, senior vice president, vice president and other management levels. The loss of key individuals, and particularly the cumulative effect of such losses, 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 products we sell if they 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.

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.



**Table of Contents**

**We Rely Heavily On Third Parties To Provide Specialized Services; A Failure By Such Parties To Provide The Agreed 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 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, specialized 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.

**We 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 from time to time based on our general business operations or the specific operation of our wireless networks. We generally have indemnification agreements with the manufacturers and suppliers who provide us with the equipment 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 an infringement claim. Whether or not an infringement claim 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), or requiring us to redesign our business operations or systems to avoid claims of infringement.

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 initiated similar discussions with other telecommunications carriers. We have begun to evaluate the third party's position but have not yet reached a conclusion as to the validity of its position. 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 the third party. We do not currently expect that such an agreement would materially adversely affect our business, but we cannot provide assurance to our investors about the effect of any such license.

**Regulation By Government Agencies May Increase Our Costs Of Providing Service Or Require Us To Change Our Services**

Our operations are subject to varying degrees of regulation by the FCC, 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. 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. Governmental regulations and orders can significantly increase our costs and affect our competitive position compared to other telecommunications providers. We are unable to predict the scope, pace or financial impact of regulations and other policy changes that could be adopted by the various governmental entities that oversee portions of our business.





**Table of Contents**

**If Call Volume Under Our Cricket Flat Price Plans Exceeds Our Expectations, Our Costs Of Providing Service Could Increase, Which Could Have A Material Adverse Effect On Our Competitive Position**

Cricket customers currently use their handsets approximately 1,500 minutes per month, and some markets are experiencing substantially higher call volumes. We own less spectrum in many of our markets than our competitors, but we design our networks to accommodate our expected high call volume, and we consistently assess and implement technological improvements to increase the efficiency of our wireless spectrum. However, if future wireless use by Cricket customers exceeds the capacity of our networks, service quality may suffer. We may be forced to raise the price of Cricket service to reduce volume or otherwise limit the number of new customers, or incur substantial capital expenditures to improve network capacity.

We offer service plans that bundle certain features, long distance and virtually unlimited local service for a fixed monthly fee to more effectively compete with other telecommunications providers. If customers exceed expected usage, we could face capacity problems and our costs of providing the services could increase. Further, long distance rates and the charges for interconnecting telephone call traffic between carriers can be affected by governmental regulatory actions (and in some cases are subject to regulatory control) and, as a result, could increase with limited warning. 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.

**Future Declines In The Fair Value Of Our Wireless Licenses Could Result In Future Impairment Charges**

During the three months ended June 30, 2003, we recorded an impairment charge of \$171.1 million to reduce the carrying value of our wireless licenses to their estimated fair value. However, as a result of our adoption of fresh-start reporting under 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.

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 allowed or required 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 bidding activity in recently concluded or upcoming 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. If the market value of wireless licenses were to decline significantly in the future, the value of our wireless licenses could be subject to non-cash impairment charges in the future. 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.

**Table of Contents**

**Because Our Consolidated Financial Statements Reflect Fresh-Start Reporting Adjustments Made Upon Our Emergence From Bankruptcy, Financial Information In Our Current And Future Financial Statements Will Not Be Comparable To Our Financial Information From Prior Periods**

As a result of adopting fresh-start reporting on July 31, 2004, the carrying values of our wireless licenses and our property and equipment, and the related depreciation and amortization expense, among other things, changed considerably from that reflected in our historical consolidated financial statements. Thus, our current and future balance sheets and results of operations will not be comparable in many respects to our balance sheets and consolidated statements of operations data for periods prior to our adoption of fresh-start reporting. You are not able to compare information reflecting our post-emergence balance sheet data, results of operations and changes in financial condition to information for periods prior to our emergence from bankruptcy, without making adjustments for fresh-start reporting.

**Risks Related to Our Common Stock**

**Our Shares Are Not Listed With the NASDAQ National Market Or A National Securities Exchange And May Have Limited Trading**

On August 16, 2004, the Effective Date of our Plan of Reorganization, Leap issued 60 million shares of common stock for distribution to two classes of our creditors. Leap's outstanding shares of common stock are not currently listed on the NASDAQ National Market or any national securities exchange and Leap cannot guarantee that an application to list its shares will be granted. Leap's common shares are quoted for trading by market makers on the OTC Bulletin Board, but the shares may be less liquid in that market than they would be on the NASDAQ National Market or a national securities exchange. Our ability to access equity capital markets may be restricted in the future if the trading market for Leap's common stock lacks sufficient liquidity.

**Our Stock Price May Be Volatile**

The trading prices of the securities of telecommunications companies have been highly volatile. Accordingly, the trading price of our common stock is likely to be subject to wide fluctuations. Factors affecting the trading price of our 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 our common stock; and

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

**Our Directors and Affiliated Entities Have Substantial Influence Over Our Affairs**

Our directors and entities affiliated with them beneficially own in the aggregate approximately 28.7% of our common stock. 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 our 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.

**Table of Contents**

**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 our common stock by acting to discourage, delay or prevent a change in control of our company or changes in our management that the stockholders of Leap 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 4. Controls and Procedures.**

**(a) Evaluation of Disclosure Controls and Procedures**

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Company's 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 its chief executive officer ( CEO ) and chief financial officer ( CFO ), as appropriate, to allow for timely decisions regarding required disclosure. Management, with participation by the Company's CEO and CFO, has designed the Company's disclosure controls and procedures to provide reasonable assurance of achieving the desired objectives. As required by SEC Rule 13a-15(b), in connection with filing this Amendment No. 1 on Form 10-Q/A, management again conducted an evaluation, with the participation of the Company's CEO and CFO, of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of March 31, 2005, the end of the period covered by this report. Based upon that evaluation, the Company's CEO and CFO concluded that certain control deficiencies, each of which constituted a material weakness, as discussed below, existed in the Company's internal control over financial reporting as of March 31, 2005. As a result of the material weaknesses, the Company's CEO and CFO concluded that the Company's disclosure controls and procedures were not effective at the reasonable assurance level as of March 31, 2005.

The Company's CEO and CFO previously concluded that certain control deficiencies, each of which constituted a material weakness, as discussed below, existed in the Company's internal control over financial reporting as of December 31, 2004. As a result of the material weaknesses, the Company's CEO and CFO concluded that the

Company's disclosure controls and procedures were not effective at the reasonable assurance level as of December 31, 2004.

The Company has performed additional analyses and other post-closing procedures in order to conclude that its audited consolidated financial statements for the years ended December 31, 2005 and 2004, included in its Annual Report on Form 10-K for the year ended December 31, 2005, as well as its unaudited interim condensed consolidated financial statements included in this Quarterly Report on Form 10-Q/A, were presented in accordance with accounting principles generally accepted in the United States of America for such financial statements. Accordingly, management believes that despite these material weaknesses, the Company's audited consolidated

**Table of Contents**

financial statements for the years ended December 31, 2005 and 2004, included in its Annual Report on Form 10-K for the year ended December 31, 2005, as well as its unaudited interim financial statements included in this Quarterly Report on Form 10-Q/A, reflect all adjustments necessary to state fairly the financial information set forth therein.

The material weaknesses, additional analyses, and other remediation procedures are described more fully below.

*Insufficient Staffing in the Accounting, Financial Reporting and Tax Functions.* As of March 31, 2005 and December 31, 2004, the Company did not maintain a sufficient complement of personnel with the appropriate skills, training and Company-specific experience to identify and address the application of generally accepted accounting principles in complex or non-routine transactions. Specifically, the Company has experienced staff turnover, and as a result, has experienced a lack of knowledge transfer to new employees within its accounting, financial reporting and tax functions. In addition, the Company does not have a full-time director of its tax function. Additionally, this control deficiency could result in a misstatement of accounts and disclosures that would result in a material misstatement to the Company's interim or annual consolidated financial statements that would not be prevented or detected. Accordingly, management has determined that this control deficiency constitutes a material weakness. The Company believes that its insufficient complement of personnel and high turnover resulted, in large part, from (1) the significantly increased workload placed on its accounting and financial reporting staff during the Company's bankruptcy and the months after the Company's emergence from bankruptcy during which it was implementing fresh-start reporting, and (2) the departure of some staff members during the Company's bankruptcy and in the first several months after its emergence due to concerns about the Company's prospects.

The Company has taken the following actions to remediate the material weakness related to insufficient staffing in its accounting, financial reporting and tax functions:

The Company hired a new vice president, chief accounting officer in May 2005. This individual is a certified public accountant with over 19 years of experience as an accounting professional, including over 14 years of Big Four public accounting experience. He possesses a strong background in technical accounting and the application of generally accepted accounting principles.

The Company has hired a number of key accounting personnel since February 2005 that are appropriately qualified and experienced to identify and apply technical accounting literature, including several new directors and managers.

Based on the new leadership and management in the accounting department and on its identification of certain of the historical errors in the Company's accounting for income taxes, the Company believes that it has made substantial progress in addressing this material weakness as of December 31, 2005. However, this material weakness was not remediated as of such date. The Company expects that this material weakness will be fully remediated once it has filled the remaining key open management positions, including a full-time tax department leader, with qualified personnel and those personnel have had sufficient time in their positions.

This material weakness contributed to the following four control deficiencies, each of which is individually considered to be a material weakness.

*Errors in the Accounting for Income Taxes.* As of March 31, 2005 and December 31, 2004, the Company did not maintain effective controls over its accounting for income taxes. Specifically, the Company did not have adequate controls designed and in place to ensure the completeness and accuracy of the deferred income tax provision and the related deferred tax assets and liabilities and the related goodwill in conformity with generally accepted accounting principles. This control deficiency resulted in the restatement of the Company's consolidated financial statements for the five months ended December 31, 2004 and the consolidated financial statements for the two months ended

September 30, 2004 and the quarters ended March 31, 2005, June 20, 2005 and September 30, 2005. Additionally, this control deficiency could result in a misstatement of accounts and disclosures that would result in a material misstatement to the Company's interim or annual consolidated financial statements that would not be prevented or detected. Accordingly, management has determined that this control deficiency constitutes a material weakness.



**Table of Contents**

The Company has taken the following actions to remediate the material weakness related to its accounting for income taxes:

The Company has initiated a search for a qualified full-time tax department leader and continues to make this a priority. The Company has been actively recruiting for this position for several months, but has experienced difficulty in finding qualified applicants. Nevertheless, the Company is striving to fill the position as soon as possible.

As part of its 2005 annual income tax provision, the Company improved its internal control over income tax accounting to establish detailed procedures for the preparation and review of the income tax provision, including review by the Company's chief accounting officer.

The Company used experienced qualified consultants to assist management in interpreting and applying income tax accounting literature and preparing the Company's 2005 annual income tax provision, and will continue to use such consultants in the future to obtain access to as much income tax accounting expertise as it needs. The Company recognizes, however, that a full-time tax department leader with appropriate tax accounting expertise is important for the Company to maintain effective internal controls on an ongoing basis.

As a result of the remediation initiatives described above, the Company identified certain of the errors that gave rise to the restatements of the consolidated financial statements for deferred income taxes.

The Company expects that the material weakness related to its accounting for income taxes will be remediated once it has hired a full-time leader of the tax department, that person has had sufficient time in his or her position, and the Company demonstrates continued accurate and timely preparation of its income tax provisions.

*Errors in the Application of Lease-Related Accounting Principles.* In the first few months of 2005, the Company identified errors in assumptions that resulted in the incorrect accounting for rent expense and remediation obligations associated with its leases for periods ending on or before December 31, 2004. Additionally, this control deficiency could result in a misstatement of accounts and disclosures that would result in a material misstatement to the Company's interim or annual consolidated financial statements that would not be prevented or detected. Accordingly, management has determined that this control deficiency constitutes a material weakness.

The Company took the following actions between February and May 2005 to remediate this material weakness:

reviewed the terms of over 2,500 cell-site, switch and other leases and re-assessed lease term assumptions to assure proper accounting for the rent expense and asset retirement obligations with respect to these leases;

corrected the errors identified in its condensed consolidated interim financial statements for the one and seven month periods ended July 31, 2004 and the two month period ended September 30, 2004;

changed its internal control over financial reporting to identify the procedures to follow for appropriate lease accounting; and

educated accounting department personnel regarding correct lease accounting procedures.

Management believes that this material weakness was remediated during the quarter ended June 30, 2005, as reported in the Company's Quarterly Report on Form 10-Q for that quarter.

*Fresh-Start Reporting Adjustments.* In preparing for its 2004 annual audit, the Company identified several errors resulting from inadequate oversight of the fresh-start reporting adjustments recorded as of July 31, 2004 in connection with the Company's emergence from bankruptcy. The Company believes these errors occurred as a result of the substantial additional workload on its accounting staff in connection with fresh-start reporting and the insufficient staffing levels and the associated lack of knowledge transfer to new employees within these functions as described above. The Company determined that as of July 31, 2004 it overstated deferred rent and certain vendor obligations which should have been eliminated as a result of the emergence from bankruptcy and the implementation of fresh-start reporting. Additionally, this control deficiency could result in a misstatement of accounts and disclosures that would result in a material misstatement to the Company's interim or annual

**Table of Contents**

consolidated financial statements that would not be prevented or detected. Accordingly, management has determined that this control deficiency constitutes a material weakness.

The Company took the following actions between February and May 2005 with respect to its fresh-start reporting to remediate this material weakness:

reviewed the fresh-start reporting adjustments made in connection with the Company's emergence from bankruptcy; and

corrected the errors identified in its unaudited interim condensed consolidated financial statements for the one and seven month periods ended July 31, 2004.

Management believes that this material weakness was remediated during the quarter ended June 30, 2005, as reported in the Company's Quarterly Report on Form 10-Q for that quarter.

*Inadequate Account Reconciliation Procedures.* In preparing for its 2004 annual audit, the Company identified errors that resulted from inadequate reconciliation of deferred revenue that should have been recognized as service revenue. In addition, with the implementation of fresh-start reporting, the Company's investments were re-valued at fair market value but the Company did not have the reconciliation procedures in place to separately track the gains and losses on such investments subsequent to the implementation of fresh-start reporting. Additionally, this control deficiency could result in a misstatement of accounts and disclosures that would result in a material misstatement to the Company's interim or annual consolidated financial statements that would not be prevented or detected. Accordingly, management has determined that this control deficiency constitutes a material weakness.

The Company is in the process of remediating this material weakness with respect to its inadequate account reconciliation procedures. The Company took the following actions between February and May 2005:

established and communicated additional procedures for the analysis, review and approval of account reconciliations;

instituted procedures requiring supervisory personnel to review and approve all account reconciliations; and

corrected the related errors identified in its condensed consolidated interim financial statements for the one and seven month periods ended July 31, 2004 and the two month period ended September 30, 2004.

Management believes that this material weakness was remediated during the quarter ended June 30, 2005, as reported in the Company's Quarterly Report on Form 10-Q for that quarter.

**(b) Changes in Internal Control Over Financial Reporting**

There were no changes in the Company's internal control over financial reporting during the Company's fiscal quarter ended March 31, 2005 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

**Table of Contents**

**PART II**  
**OTHER INFORMATION**

**Item 6. Exhibits.***Index to Exhibits:*

<b>Exhibit Number</b>	<b>Description of Exhibit</b>
10.3.7(1)	Amendment No. 7 to the Amended and Restated System Equipment Purchase Agreement by and between Cricket Communications, Inc. and Lucent Technologies Inc., effective as of January 1, 2005.
10.7(2)#	Resignation Agreement by and among Leap Wireless International, Inc., Cricket Communications, Inc. and William M. Freeman, dated February 25, 2005.
10.11.1(2)	Amendment, dated January 26, 2005, to the Credit Agreement, dated as of December 22, 2004, among Cricket Communications, Inc., Alaska Native Broadband 1 License, LLC, and Alaska Native Broadband 1, LLC.
10.13(2)#	Amended and Restated Executive Employment Agreement among Leap Wireless International, Inc., Cricket Communications, Inc., and S. Douglas Hutcheson, dated as of January 10, 2005.
10.14(3)	Credit Agreement, dated January 10, 2005, by and among Cricket Communications, Inc., Leap Wireless International, Inc., the lenders party thereto and Bank of America, N.A., as administrative agent and L/C issuer.
10.14.1(3)	Security Agreement, dated January 10, 2005, by and among Cricket Communications, Inc., Leap Wireless International, Inc., the Subsidiary Guarantors and Bank of America, N.A., as collateral agent.
10.14.2(3)	Parent Guaranty, dated January 10, 2005, made by Leap Wireless International, Inc. in favor of the secured parties under the Credit Agreement.
10.14.3(3)	Subsidiary Guaranty, dated January 10, 2005, made by the Subsidiary Guarantors in favor of the secured parties under the Credit Agreement.
10.14.4(4)	Letter from Cricket Communications, Inc. to the Lenders under the Credit Agreement, dated as of January 10, 2005, among the Company, Bank of America, N.A., Goldman Sachs Credit Partners L.P., Credit Suisse First Boston and the other lenders party thereto, dated April 12, 2005.
10.15(2)#	Employment offer letter dated January 31, 2005, between Cricket Communications, Inc. and Albin F. Moschner.
10.16.1(2)#	Emergence Bonus Agreement, dated February 17, 2005, between Leap Wireless International, Inc. and Glenn T. Umetsu.
10.16.2(2)#	Emergence Bonus Agreement, dated February 17, 2005, between Leap Wireless International, Inc. and David B. Davis.
10.16.3(2)#	Emergence Bonus Agreement, dated February 17, 2005, between Leap Wireless International, Inc. and Leonard C. Stephens.
10.16.4(2)#	Emergence Bonus Agreement, dated February 17, 2005, between Leap Wireless International, Inc. and Robert J. Irving, Jr.
10.17#**	2005 Cricket Non-Sales Bonus Plan.
10.18#**	Employment Offer Letter dated March 24, 2005, between Cricket Communications, Inc. and Grant Burton.
31.1*	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

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

\* Filed herewith.

\*\* Previously filed.

**Table of Contents**

\*\*\* 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.

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

# Management contract or compensatory plan or arrangement in which one or more executive officers or directors participates.

- (1) Filed as an exhibit to Leap's Current Report on Form 8-K, dated December 31, 2004, filed with the SEC on March 28, 2005, and incorporated herein by reference.
- (2) Filed as an exhibit to Leap's Annual Report on Form 10-K, for the fiscal year ended December 31, 2004, filed with the SEC on May 16, 2005, and incorporated herein by reference.
- (3) Filed as an exhibit to Leap's Current Report on Form 8-K, dated January 10, 2005, filed with the SEC on January 14, 2005, and incorporated herein by reference.
- (4) Filed as an exhibit to Leap's Current Report on Form 8-K, dated April 12, 2005, as filed with the SEC on April 13, 2005, 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 Amendment No. 1 to Quarterly Report on Form 10-Q/A to be signed on its behalf by the undersigned thereunto duly authorized.

LEAP WIRELESS INTERNATIONAL, INC.

Date: April 19, 2006

By: /s/ S. Douglas Hutcheson  
S. Douglas Hutcheson  
Chief Executive Officer and President  
(Principal Executive Officer)

Date: April 19, 2006

By: /s/ Dean M. Luvisa  
Dean M. Luvisa  
Vice President, Finance and  
Acting Chief Financial Officer  
(Principal Financial Officer)