LEAP WIRELESS INTERNATIONAL INC
Form 10-Q/A
May 24, 2005

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

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

(Mark One)

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

For the quarterly period ended September 30, 2004

OR

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

For the transition period from__________ to ____________ .

Commission File Number 0-29752

Leap Wireless International, Inc.

(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

The number of shares of registrant s common stock outstanding on May 20, 2005 was 60,000,000.

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EXPLANATORY NOTE

This quarterly report on Form 10-Q/A for the quarterly period ended September 30, 2004 includes unaudited interim condensed consolidated financial statements of Leap Wireless International, Inc. (the Predecessor Company) for the seven months ended July 31, 2004 and unaudited interim condensed consolidated financial statements of Leap Wireless International, Inc. (the Successor Company) for the two months ended September 30, 2004.

The previously issued unaudited interim condensed consolidated financial statements of the Predecessor Company have been restated to properly present various liabilities, including asset retirement obligations and deferred rent, upon the adoption of fresh start reporting as of July 31, 2004. The previously issued unaudited condensed consolidated financial statements of the Successor Company have been restated to correct errors in accounting for leases, service and equipment revenues, investment income and to record additional income tax expense due to these corrections. 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 September 30, 2004 (the Original Form 10-Q), filed on November 22, 2004 (the Original Filing Date), that has been changed 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. No other information included in the Original Form 10-Q is amended hereby.

Except as stated above, this report speaks only as of the Original Filing Date and this filing does not reflect any events occurring after the Original Filing Date.

LEAP WIRELESS INTERNATIONAL, INC.

QUARTERLY REPORT ON FORM 10-Q/A
For the Quarter Ended September 30, 2004

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PART I
FINANCIAL INFORMATION

Item 1. Financial Statements

LEAP WIRELESS INTERNATIONAL, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(UNAUDITED)
(In thousands)

	Successor Company September 30, 2004 (As Restated) (See Note 3)	Predecessor Company December 31, 2003
Assets		
Cash and cash equivalents	$ 140,234	$ 84,070
Short-term investments	99,991	65,811
Restricted cash, cash equivalents and short-term investments	35,643	55,954
Funds distributed to Leap Creditor Trust (Note 1)		67,800
Inventories	33,286	17,680
Other current assets	33,656	39,145
Total current assets	342,810	330,460
Property and equipment, net	579,680	817,075
Wireless licenses, net	652,664	560,056
Goodwill and other intangible assets, net	489,020	
Other assets	15,038	49,252
Total assets	$ 2,079,212	$ 1,756,843
Liabilities and Stockholders Equity (Deficit)		
Accounts payable and accrued liabilities	$ 91,663	$ 64,485
Current maturities of long-term debt (Note 6)	40,586	74,112
Other current liabilities	67,271	54,923
Total current liabilities	199,520	193,520
Long-term debt (Note 6)	372,192	
Other long-term liabilities	31,194	55,157
Total liabilities	602,906	248,677
Liabilities subject to compromise (Note 5)		2,401,522
Commitments and contingencies (Notes 1 and 8)		
Stockholders equity (deficit):		
Predecessor Company and Successor Company preferred stock authorized 10,000,000 shares, $.0001 par value; no shares issued and outstanding		

Predecessor Company common stock authorized 300,000,000 shares, $.0001 par value; 58,704,224 shares issued and outstanding		6
Successor Company common stock authorized 160,000,000 shares, $.0001 par value; 60,000,000 shares issued and outstanding	6	
Additional paid-in capital	1,478,392	1,156,410
Unearned stock-based compensation		(421)
Accumulated deficit	(1,982)	(2,048,431)
Accumulated other comprehensive income (loss)	(110)	(920)
Total stockholders equity (deficit)	1,476,306	(893,356)
Total liabilities and stockholders equity (deficit)	$ 2,079,212	$ 1,756,843

See accompanying notes to condensed consolidated financial statements.

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LEAP WIRELESS INTERNATIONAL, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS) (UNAUDITED) (In thousands, except per share data)

	Successor Company	Predecessor Company	
	Two Months Ended September 30, 2004 (As Restated) (See Note 3)	One Month Ended July 31, 2004 (As Restated) (See Note 3)	Three Months Ended September 30, 2003
Revenues:			
Service revenues	$ 113,011	$ 57,375	$ 160,849
Equipment revenues	24,772	11,749	32,034
Total revenues	137,783	69,124	192,883
Operating expenses:			
Cost of service (exclusive of items shown separately below)	(32,873)	(18,161)	(47,849)
Cost of equipment	(31,383)	(12,770)	(49,188)
Selling and marketing	(16,769)	(6,805)	(21,610)
General and administrative	(21,707)	(8,982)	(38,723)
Depreciation and amortization	(29,547)	(26,007)	(74,903)
Impairment of long-lived assets and related charges		(266)	(4,083)
Total operating expenses	(132,279)	(72,991)	(236,356)
Gains on sale of wireless licenses		532	3,117
Operating income (loss)	5,504	(3,335)	(40,356)
Interest income	608		
Interest expense (contractual interest expense was $22.7 million for the one month ended July 31, 2004 and $62.0 million for the three months ended September 30, 2003)	(5,545)	(464)	(2,356)
Other income (expense), net	155	303	(19)
Income (loss) before reorganization items and income taxes	722	(3,496)	(42,731)
Reorganization items, net		963,156	(2,595)
Income (loss) before income taxes	722	959,660	(45,326)
Income taxes	(2,704)	(295)	(2,091)

Net income (loss)	$ (1,982)	$ 959,365	$ (47,417)
Other comprehensive income (loss):			
Unrealized holding gains (losses) on investments, net	(110)		140
Comprehensive income (loss)	$ (2,092)	$ 959,365	$ (47,277)
Basic and diluted net income (loss) per common share	$ (0.03)	$ 16.36	$ (0.81)
Shares used in per share calculations:			
Basic and diluted	60,000	58,631	58,704

See accompanying notes to condensed consolidated financial statements.

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LEAP WIRELESS INTERNATIONAL, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS) (UNAUDITED) (In thousands, except per share data)

	Successor Company	Predecessor Company	
	Two Months Ended September 30, 2004 (As Restated) (See Note 3)	Seven Months Ended July 31, 2004 (As Restated) (See Note 3)	Nine Months Ended September 30, 2003
Revenues:			
Service revenues	$ 113,011	$ 398,451	$ 483,912
Equipment revenues	24,772	83,196	78,462
Total revenues	137,783	481,647	562,374
Operating expenses:			
Cost of service (exclusive of items shown separately below)	(32,873)	(113,988)	(153,918)
Cost of equipment	(31,383)	(97,160)	(132,994)
Selling and marketing	(16,769)	(51,997)	(65,353)
General and administrative	(21,707)	(81,514)	(126,706)
Depreciation and amortization	(29,547)	(177,494)	(226,055)
Impairment of indefinite-lived intangible assets			(171,140)
Impairment of long-lived assets and related charges		(626)	(22,721)
Total operating expenses	(132,279)	(522,779)	(898,887)
Gains on sale of wireless licenses		532	4,589
Operating income (loss)	5,504	(40,600)	(331,924)
Interest income	608		779
Interest expense (contractual interest expense was $156.3 million for the seven months ended July 31, 2004 and $184.7 million for the nine months ended September 30, 2003)	(5,545)	(4,195)	(82,307)
Other income (expense), net	155	(293)	(187)
Income (loss) before reorganization items and income taxes	722	(45,088)	(413,639)
Reorganization items, net		962,444	(4,963)
Income (loss) before income taxes	722	917,356	(418,602)

Income taxes	(2,704)	(4,166)	(6,072)
Net income (loss)	$ (1,982)	$ 913,190	$ (424,674)
Other comprehensive income (loss):			
Unrealized holding gains (losses) on investments, net	(110)		225
Comprehensive income (loss)	$ (2,092)	$ 913,190	$ (424,449)
Basic and diluted net income (loss) per common share	$ (0.03)	$ 15.58	$ (7.23)
Shares used in per share calculations:			
Basic and diluted	60,000	58,623	58,704

See accompanying notes to condensed consolidated financial statements.

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LEAP WIRELESS INTERNATIONAL, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)
(In thousands)

	Successor Company	Predecessor Company	
	Two Months Ended September 30, 2004 (As Restated) (See Note 3)	Seven Months Ended July 31, 2004 (As Restated) (See Note 3)	Nine Months Ended September 30, 2003
Operating activities:			
Net cash provided by operating activities	$ 27,045	$ 120,623	$ 105,235
Investing activities:			
Purchase of property and equipment	(10,433)	(33,241)	(27,279)
Net proceeds from sales of wireless licenses		2,000	4,722
Purchase of investments	(12,798)	(87,201)	(111,183)
Sale and maturity of investments	7,300	58,333	79,197
Restricted cash, cash equivalents and short-term investments, net	11,453	9,810	13,734
Net cash used in investing activities	(4,478)	(50,299)	(40,809)
Financing activities:			
Repayment of long-term debt	(36,727)		(4,365)
Other			50
Net cash used in financing activities	(36,727)		(4,315)
Net increase (decrease) in cash and cash equivalents	(14,160)	70,324	60,111
Cash and cash equivalents at beginning of period	154,394	84,070	100,860
Cash and cash equivalents at end of period	$ 140,234	$ 154,394	$ 160,971

See accompanying notes to condensed consolidated financial statements.

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LEAP WIRELESS INTERNATIONAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 1. The Company and its Emergence from Chapter 11

Leap Wireless International, Inc., a Delaware corporation, together with its wholly owned subsidiaries (the Company), is a wireless communications carrier that offers digital wireless service in the United States under the brand Cricket®. Leap Wireless International, Inc. (Leap) conducts operations through its subsidiaries. Leap has no independent operations or sources of operating revenue other than through dividends, if any, from its operating subsidiaries. Cricket service is operated by the Company s wholly owned subsidiary, Cricket Communications, Inc. (Cricket). Cricket and its subsidiaries that hold assets that are used in Cricket s wireless communications business are collectively referred to herein as the Cricket Companies. As of September 30, 2004, the Company provided wireless service in 39 markets. As discussed in Note 2, references in these financial statements to Predecessor Company refer to the Company on or prior to July 31, 2004. References to Successor Company refer to the Company after July 31, 2004, after giving effect to the implementation of fresh start reporting.

Chapter 11 Proceedings Under the Bankruptcy Code

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) (jointly administered as Case Nos. 03-03470-A11 to 03-03535-A11). These entities comprise substantially all of the operations of the Company. While in bankruptcy, each of the debtors continued to manage its properties and operate its business as a debtor-in-possession under the jurisdiction of the Bankruptcy Court and in accordance with Sections 1107(a) and 1108 of Chapter 11.

On October 22, 2003, the Bankruptcy Court entered an order confirming the Fifth Amended Joint Plan of Reorganization dated as of July 30, 2003, including certain technical amendments thereto (the Plan of Reorganization), of Leap, Cricket and their debtor subsidiaries. The effectiveness of the Plan of Reorganization was conditioned upon, among other things, the receipt of required regulatory approvals from the Federal Communications Commission (the FCC) for the transfer of wireless licenses associated with the change of control that occurred upon Leap s emergence from bankruptcy. Leap received the requisite approvals from the FCC on August 5, 2004. On August 16, 2004 (the Effective Date), Leap and Cricket satisfied the remaining conditions to the Plan of Reorganization, the Plan of Reorganization became effective, and the Company emerged from Chapter 11 bankruptcy.

The Plan of Reorganization implemented a comprehensive financial reorganization that significantly reduced the Company s total outstanding indebtedness. In connection with 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 repayment of $45 million of principal and accrued interest to the FCC on the Effective Date). Following is a summary of the material actions that occurred as of the Effective Date of the Plan of Reorganization:

- All of the outstanding shares of Leap common stock, warrants and options were cancelled. The holders of Leap common stock, warrants and options did not receive any distributions under the Plan of Reorganization.

- Leap issued 60 million shares of new Leap common stock for distribution to two classes of the Company s creditors, as described below. Leap also issued warrants to purchase 600,000 shares of new Leap common stock

pursuant to a settlement agreement.

The holders of Cricket s senior secured vendor debt claims received, on a pro rata basis, 96.5% of the issued and outstanding shares of new Leap common stock, or an aggregate of 57.9 million shares, as well as 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. The notes are guaranteed by Leap and its direct and indirect domestic subsidiaries. The notes are secured by all of the personal property and any owned real property of Leap and all of its direct and indirect domestic subsidiaries.

The Leap Creditor Trust, which was formed as contemplated by the Plan of Reorganization for the benefit of Leap s general unsecured creditors, received 3.5% of the issued and outstanding shares of new Leap common stock, or 2.1 million shares, for

distribution to holders of allowed Leap general unsecured claims on a pro rata basis. Leap also transferred other assets as specified in the Plan of Reorganization, which are to be liquidated by the Leap Creditor Trust, with the cash proceeds from such liquidation to be distributed to the holders of allowed Leap general unsecured claims. These other assets included a note receivable of $35.0 million that is currently in dispute with Endesa, S.A., nine wireless licenses with a book value of approximately $1.1 million at August 16, 2004, Leap s equity interest in IAT Communications, Inc. which had no carrying value at August 16, 2004, certain causes of action, and approximately $2.3 million of cash. Prior to August 16, 2004, Leap had transferred $68.8 million of funds to the Leap Creditor Trust to be distributed to holders of allowed Leap general unsecured claims.

Certain executory contracts and unexpired leases were assumed by the reorganized debtors, with reorganized Cricket responsible for paying the cure amounts associated with such contracts and leases.

The holders of general unsecured claims against Cricket or the other subsidiaries of Leap and Cricket received no distributions under the Plan of Reorganization.

All of the debtors pre-petition indebtedness, other than indebtedness owed to the FCC, was cancelled in full, including approximately $1.6 billion net book value of debt outstanding under Cricket s senior secured vendor credit facilities and approximately $738.2 million net book value of debt outstanding under Leap s 12.5% senior notes (Senior Notes), 14.5% senior discount notes (Senior Discount Notes), note payable to GLH, Inc. (GLH) and Qualcomm Incorporated (Qualcomm) term loan.

On the Effective Date of the Plan of Reorganization, the Company paid to the FCC approximately $36.7 million for unpaid principal and approximately $8.3 million of accrued interest in connection with the reinstatement of the Company s FCC debt, and approximately $278,000 of unjust enrichment penalties. The Company has agreed to repay the approximately $40 million remaining outstanding principal amount of FCC debt, plus accrued interest, in installments scheduled for April and July 2005.

Leap entered into a Registration Rights Agreement with MHR Institutional Partners II LP and MHR Institutional Partners IIA LP (beneficial shareholders of Leap and affiliates of Mark H. Rachesky, a director of Leap) and Highland Capital Management, L.P. (a beneficial shareholder of Leap and an affiliate of James D. Dondero, a director of Leap), pursuant to which Leap granted demand registration rights to such entities and agreed to prepare and file a resale shelf registration statement relating to the shares of new Leap common stock received by such entities under the Plan of Reorganization.

Also on the Effective Date of the Plan of Reorganization, Leap, Cricket and their subsidiaries implemented certain restructuring transactions intended to streamline their corporate structure. As a result, Leap owns 100% of the issued and outstanding shares of reorganized Cricket and each of Leap s other reorganized subsidiaries, and Cricket owns 100% of the issued and outstanding shares of each of the reorganized wireless license holding companies and the reorganized property holding companies.

Any cash held in reserve by Leap immediately prior to the Effective Date of the Plan of Reorganization that remains following satisfaction of all allowed administrative claims and allowed priority claims against Leap will be distributed to the Leap Creditor Trust. At September 30, 2004, approximately $10.8 million remained in reserve by Leap and was included in restricted cash and Cricket had restricted cash and cash equivalents of $22.6 million that included funds set aside or pledged to satisfy payments and administrative and priority claims against the Cricket Companies following emergence from bankruptcy, and cash restricted for other purposes.

The foregoing summary does not purport to be complete and is qualified in its entirety by reference to the petitions and the motions, pleadings and papers on file with the Bankruptcy Court, including the Plan of Reorganization and the accompanying Disclosure Statement, which were filed as Exhibits 2.1 and 2.2, respectively, to Leap s Current Report

on Form 8-K dated July 30, 2003, as amended by Amendment No. 1 thereto. The Disclosure Statement also includes detailed information about the Plan of Reorganization.

Accounting Under Chapter 11

As of the Petition Date, 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. SOP 90-7 requires that the Company s pre-petition liabilities that were subject to compromise be reported separately on the balance sheet at an estimate of the amount that would ultimately be allowed by the Bankruptcy Court. SOP 90-7 also requires separate reporting of 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 its Senior Notes, Senior Discount Notes, senior secured vendor credit facilities, note payable to GLH and Qualcomm term loan.

In accordance with SOP 90-7, changes in accounting principles required to be adopted under accounting principles generally accepted in the United States within twelve months of emerging from bankruptcy are required to be adopted at the date of emergence. However, there were none that had a significant effect on these financial statements.

Note 2. Fresh-Start Reporting

The Company has adopted the fresh start accounting provisions of SOP 90-7. Under SOP 90-7, the Company was required to apply fresh start reporting because (i) the reorganization value of the assets of the Company was less than the sum of all the allowed claims and post petition liabilities, and (ii) holders of Leap s common shares immediately before the Bankruptcy Court confirmed the Company s Plan of Reorganization received less than fifty percent of the common stock issued by Leap on the date it emerged from bankruptcy. All material conditions to the effectiveness of the Plan of Reorganization were resolved on August 5, 2004 and the Plan of Reorganization became effective on August 16, 2004. In light of the proximity of August 5, 2004 to the month ended July 31, 2004 and the immateriality of the results of operations for the period from August 1, 2004 through August 5, 2004, the Company has recorded the effects of the consummation of the Plan of Reorganization as well as adjustments for fresh start reporting in the Company s unaudited condensed consolidated financial statements 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 financial statements, the term Company refers to the Predecessor Company and its operations for periods on or prior to July 31, 2004, and refers to the Successor Company and its operations for periods after July 31, 2004. The financial statements of the Company after July 31, 2004 are not comparable in many respects to the Company s financial statements for prior periods.

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. Consistent with fresh start reporting, enterprise value (i.e. debt plus equity) may be used to calculate the reorganization value of the Company. The Company engaged a third party valuation consultant to assist the Company in estimating the Company s enterprise value as of July 31, 2004. In formulating its estimate of the Company s enterprise value, the valuation consultant reviewed information about the Company and conducted a discounted cash flow analysis using projected financial information supplied by the Company and an analysis of the market value and trading multiples of selected publicly-held companies in lines of business similar to the Company s business. The valuation consultant estimated that the Company s enterprise value at July 31, 2004 was between $1.9 billion and $2.2 billion. The Company selected the mid-point of the range, $2.05 billion, to represent management s best estimate of the Company s enterprise value for purposes of SOP 90-7. The Company then adjusted the enterprise value for cash necessary for normal operations and the value of non-debt operating liabilities, each as of the date of adoption of fresh start reporting, to determine that the reorganization value of the Successor Company s assets was approximately $2.1 billion.

The valuation consultant and two other valuation firms engaged by the Company provided management with information that management utilized in determining the fair market value of the Company s network assets and wireless licenses, and the fair value of the Company s trademarks and customer relationships. Management used these values in connection with the allocation process described below.

In implementing fresh start reporting, the Company allocated its reorganization value to 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 to be paid. The amount remaining after allocation of the reorganization value to 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 estimated reorganization value of the Company was based in substantial part on the projected financial information furnished by the Company to its third party valuation consultant, as well as other assumptions and estimates. The Company cannot guarantee that it will achieve these financial projections, assumptions and estimates in the future, and the Company s actual results may differ materially from the results set forth in its financial projections.

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The adjustments to the Predecessor Company s unaudited condensed consolidated balance sheet at July 31, 2004 resulting from the application of fresh start accounting are summarized below. The summary should be reviewed in conjunction with the Company s unaudited condensed consolidated financial statements and corresponding notes contained elsewhere in this report (unaudited) (in thousands):

	Predecessor Company July 31, 2004	Reorganization Adjustments (As Restated)	Fresh-Start Adjustments (As Restated)	Successor Company July 31, 2004 (As Restated)
Assets				
Cash and cash equivalents	$ 152,742	$ 1,652[a]	$	$ 154,394
Short-term investments	94,741			94,741
Restricted cash, cash equivalents and short-term investments	48,655	(1,652)[a]		47,003
Funds distributed to Leap Creditor Trust	68,790	(68,790)[a]		
Inventories	34,739			34,739
Other current assets	36,235	(1,464)[a]	(1,377)[e]	33,394
Total current assets	435,902	(70,254)	(1,377)	364,271
Property and equipment, net	675,347		(82,352)[e]	592,995
Wireless licenses, net	558,913	(1,100)[a]	94,791[e]	652,604
Goodwill			329,619[e]	329,619
Other intangible assets			166,000[e]	166,000
Other assets	52,998	(36,400)[a]	(14)[e]	16,584
Total assets	$ 1,723,160	$ (107,754)	$ 506,667	$ 2,122,073
Liabilities and Stockholders Equity (Deficit)				
Accounts payable and accrued liabilities	$ 69,140	$ 27,898[b]	$ (1,724)[e]	$ 95,314
Current maturities of long-term debt	74,799	(4)[b]	2,638[e]	77,433
Other current liabilities	66,584	14,403[b]	(6,386)[e]	74,601
Total current liabilities	210,523	42,297	(5,472)	247,348
Long-term debt		372,750[c]		372,750
Other long-term liabilities	59,052	1,094[b]	(36,569)[e]	23,577
Total liabilities	269,575	416,141	(42,041)	643,675
Liabilities subject to compromise	2,398,230	(2,398,230)[b]		
Stockholders equity (deficit):				
Common stock	6	[d]		6
Additional paid-in capital	1,155,236	909,689[d]	(586,533)[e]	1,478,392
Unearned stock-based compensation	(53)	53[d]		
Accumulated deficit	(2,098,961)	963,720[a-d]	1,135,241[e]	
Accumulated other comprehensive loss	(873)	873[d]		
Total stockholders equity (deficit)	(944,645)	1,874,335	548,708	1,478,398

Total liabilities and stockholders equity (deficit)	$ 1,723,160	$ (107,754)	$ 506,667	$ 2,122,073

Adjustments reflected in the unaudited condensed consolidated balance sheet above are as follows:

(a) To record the transfer of Leap assets to the Leap Creditor Trust.

(b) To record the assumption or discharge of liabilities subject to compromise and the cancellation of Predecessor Company debt and other liabilities compromised pursuant to the Plan of Reorganization.

(c) To record the issuance of new senior secured pay-in-kind notes, in accordance with the Plan of Reorganization.

(d) To record the cancellation of the old common stock and other equity and the issuance of new common stock and warrants in accordance with the Plan of Reorganization.

(e) To adjust the carrying value of assets, liabilities and stockholders deficit to fair value, in accordance with fresh start reporting, and record goodwill and other intangible assets for the reorganization value in excess of net assets.

The fair values of goodwill and intangible assets reported in the Successor Company s unaudited condensed 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 below the Company s enterprise value less debt 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 Predecessor Company s consolidated financial statements and notes thereto included in the Predecessor Company s Annual Report on Form 10-K for the year ended December 31, 2003 filed with the Securities and Exchange Commission on May 13, 2004. In the opinion of management, the unaudited financial information for the interim periods presented reflects all adjustments necessary to state fairly the financial information set forth herein, with such adjustments consisting only of normal recurring adjustments except for the fresh start adjustments described in Note 2. 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. All significant intercompany accounts and transactions have been eliminated in the condensed consolidated financial statements. While in bankruptcy, the Company continued to present the financial statements of Leap and its wholly owned subsidiaries on a consolidated basis because: (i) Leap and each of its subsidiaries that had filed for bankruptcy continued to manage its properties and operate its business as a debtor-in-possession; (ii) management expected, and the Plan of Reorganization contemplated, that Leap would remain the ultimate parent of each of its subsidiaries (other than a subsidiary whose stock was pledged as collateral for the GLH note); (iii) Leap had the power to elect or cause the election of the Board of Directors of each of its subsidiaries during the course of the bankruptcy; and (iv) except for assets that were to be transferred to the Leap Creditor Trust, management expected that Leap and its subsidiaries would retain substantially all of their assets through the date of the Company s emergence from bankruptcy.

Restatement of Previously Reported Unaudited Interim Consolidated Financial Information

Restatement adjustments relating to the Predecessor Company as of July 31, 2004, the date of adoption of fresh-start reporting, and for the one and seven month periods then ended:

In connection with the Company s emergence from bankruptcy and adoption of fresh-start reporting, the Company overstated its liabilities by a net amount of $4.9 million as of July 31, 2004. The adjustments necessary to correct these overstatements include: reversing $3.0 million related to the inadvertent duplicate recording of liabilities to certain creditors upon recording the effect of the Plan of Reorganization; recording the discharge through the Chapter 11 proceeding of $1.7 million of vendor obligations; reducing deferred revenue by $3.5 million to its fair value as of the fresh-start date, an adjustment to correct errors arising from inadequate account reconciliation procedures; and reducing $4.8 million of deferred rent liability to $0 as required by fresh-start reporting. The two following additional adjustments partially offset the impact of these items. In connection with a review of the Company s leases, management determined that incorrect assumptions, principally related to the expected remediation date, were used to estimate and record the liability for future asset retirement obligations, resulting in a $7.9 million

understatement of the liability as of July 31, 2004. Management also determined that the deferred income tax liability associated with wireless licenses revalued upon the adoption of fresh-start reporting was understated by $0.2 million. The per share effects of each of the above adjustments were not material.

The impact of the above adjustments required to correct the errors in the Predecessor Company unaudited consolidated financial statements as of and for the one and seven month periods ended July 31, 2004 was as follows (in thousands):

	As of July 31, 2004	
	Previously Reported	**As Restated**
Consolidated Balance Sheet Data:		
Goodwill and other intangible assets	$ 500,548	$ 495,619
Accounts payable and accrued liabilities	$ 99,168	$ 95,314
Other current liabilities	$ 84,811	$ 74,601
Other long-term liabilities	$ 14,440	$ 23,577

	One Month Ended July 31, 2004	
	Previously Reported	As Restated
Consolidated Statement of Operations Data:		
Reorganization gain, net	$ 958,228	$ 963,156
Net income	$ 954,437	$ 959,365
Basic and diluted net income per common share	$ 16.28	$ 16.36

	Seven Months Ended July 31, 2004	
	Previously Reported	As Restated
Consolidated Statement of Operations Data:		
Reorganization gain, net	$ 957,516	$ 962,444
Net income	$ 908,262	$ 913,190
Basic and diluted net income per common share	$ 15.49	$ 15.58

Restatement adjustments relating to the Successor Company s results of operations for the two month unaudited interim period ended September 30, 2004:

During the course of the Company s bankruptcy, the Company amended certain leases. For such leases, as well as new and renewed leases, the Company re-assessed the lease term and lease classification. As a result, the terms of certain leases were revised for accounting purposes, and the related rent expense, which is reflected in cost of service, was increased by $0.4 million for the two months ended September 30, 2004 to give effect to previously unrecognized rent expense arising in connection with fixed rent escalation provisions over the applicable lease term. In addition, an adjustment of $0.1 million was recorded to cost of service for the two month period ended September 30, 2004 relating to an increase in the asset retirement obligation from July 31, 2004.

In preparing for its annual audit, the Company also identified other errors in the previously reported unaudited interim financial information for the two months ended September 30, 2004. These errors resulted from inadequate account reconciliation procedures and led to the understatement of service revenue by $0.9 million, the understatement of equipment revenue by $0.3 million and the understatement of realized investment gains by $0.3 million. The Company also recorded additional income tax expense of $0.4 million for the two months ended September 30, 2004 relating to the above adjustments. The per share effects of each of the above adjustments were not material.

The impact of the above adjustments required to correct the errors relating to the unaudited interim financial information of the Successor Company as of September 30, 2004 and for the two month period then ended was as follows (in thousands):

	As of September 30, 2004	
	Previously Reported	As Restated
Consolidated Balance Sheet Data:		
Goodwill and other intangible assets	$ 494,289	$ 489,020
Accounts payable and accrued liabilities	$ 95,963	$ 91,663
Other current liabilities	$ 76,709	$ 67,271

Other long-term liabilities	$	22,945	$	31,194
Accumulated other comprehensive income (loss)	$	220	$	(110)

	Two Months Ended September 30, 2004	
	Previously Reported	As Restated
Consolidated Statement of Operations Data:		
Service revenues	$ 112,084	$ 113,011
Equipment revenues	$ 24,502	$ 24,772
Cost of service	$ (32,333)	$ (32,873)
General and administrative expenses	$ (21,673)	$ (21,707)

	Two Months Ended September 30, 2004	
	Previously Reported	As Restated
Operating income	$ 4,882	$ 5,504
Interest income	$ 278	$ 608
Income tax expense	$ (2,340)	$ (2,704)
Net loss	$ (2,572)	$ (1,982)
Unrealized holding gains (losses) on investments, net	$ 220	$ (110)
Basic and diluted net loss per common share	$ (0.04)	$ (0.03)

Reorganization Items

Reorganization items represent amounts incurred by the Predecessor Company as a direct result of the Chapter 11 reorganization and are presented separately in the Predecessor Company s condensed consolidated statements of operations.

The following table summarizes the components of reorganization items, net in the Predecessor Company s condensed consolidated statements of operations (unaudited) (in thousands):

	Predecessor Company			
	One Month Ended July 31, 2004 (As Restated)	Three Months Ended September 30, 2003	Seven Months Ended July 31, 2004 (As Restated)	Nine Months Ended September 30, 2003
Professional fees	$ (1,069)	$ (3,975)	$ (5,005)	$ (8,496)
Gain on settlement of liabilities			2,500	1,467
Adjustment of liabilities to allowed amounts			(360)	
Post-petition interest income	352	1,380	1,436	2,066
Net gain on discharge of liabilities and the net effect from application of fresh start accounting	963,873		963,873	
Total reorganization items, net	$ 963,156	$ (2,595)	$ 962,444	$ (4,963)

Revenues and Cost of Revenues

For the Company s Cricket 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. 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. In

connection with the adoption of Emerging Issues Task Force (EITF) Issue No. 00-21, Accounting for Revenue Arrangements with Multiple Deliverables, on July 1, 2003, activation fees are allocated to the other elements of the multiple element arrangement 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, 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 one month ended July 31, 2004, the two months ended September 30, 2004 and the seven months ended July 31, 2004 totaled $1.6 million, $2.9 million and $11.8 million, respectively. Activation fees included in equipment revenue for both the three and nine months ended September 30, 2003 totaled $4.5 million. 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.

Equipment revenues arise from the sale of handsets and accessories. Revenues and related costs from the sale of handsets are recognized when service is activated by customers. Revenues and related costs from the sale of accessories are recognized at the point of sale. The costs of handsets and accessories sold are recorded in cost of equipment. Handsets sold by third-party dealers and distributors are recorded as inventory until they are sold to and activated by customers. 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. 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. The Company records an estimate for returns of handsets and accessories at the time of recognizing revenue. Returns of handsets and accessories have historically been insignificant.

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Property and Equipment

Property and equipment are initially recorded at cost. Additions and improvements, including 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 accounting, 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 experience with similar property and equipment, the Company changed the depreciable lives for certain network equipment assets, such as switches, switch power equipment, and cell site equipment. 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 and net loss were reduced by approximately $20.5 million, or $0.34 per share, for the two months ended September 30, 2004 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.

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

	Prior Depreciable Life	Revised Depreciable Life	Average Remaining Life at July 31, 2004
Network equipment:			
Switches	5	10	6.8
Switch power equipment	5	15	11.8
Cell site equipment, and site acquisitions and improvements	5	7	3.8
Towers	5	15	11.8
Antennae	2	3	1.8

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.

In connection with the adoption of fresh start reporting, the Company reduced the carrying value of property and equipment to its estimated fair market value.

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 other intangible assets, when there is evidence that events or changes in circumstances indicate that the carrying value may not be recoverable. An impairment loss is 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.

During the one month ended July 31, 2004, the two months ended September 30, 2004 and the seven months ended July 31, 2004, the Company recorded charges of $0.3 million, $0 and $0.6 million, respectively, and during the three and nine months ended September 30, 2003, $4.1 million and $22.7 million, respectively, related to the disposal of certain network assets, capitalized costs and related charges associated with cell sites that the Company no longer expects to use in its business.

Wireless Licenses

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Wireless licenses are initially recorded at cost. Wireless licenses to be disposed of by sale or exchange are carried at the lower of carrying value or fair value less costs to sell. At September 30, 2004 and December 31, 2003, wireless licenses to be disposed of by sale or exchange were not significant.

In connection with the adoption of fresh start reporting, the Company increased the carrying value of 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 net assets recorded in connection with fresh start accounting. Other intangible assets were recorded upon adoption of fresh start accounting and consist of trademarks, which are being amortized on a straight-line basis over their estimated useful lives of fourteen years, and customer relationships, which are being amortized on a straight-line basis over their estimated useful lives of four years. At September 30, 2004, goodwill was $328.8 million, trademarks were $36.6 million, net of accumulated amortization of $0.4 million, and customer relationships were $123.6 million, net of accumulated amortization of $5.4 million. Amortization expense for the two months ended September 30, 2004 was $5.8 million. Estimated amortization expense for intangible assets for the remainder of 2004 and for 2005 through 2008 is $8.7 million, $34.9 million, $34.9 million, $34.9 million and $21.5 million, respectively, and $25.3 million thereafter.

Impairment of Indefinite-Lived Intangible Assets

In accordance with SFAS No. 142, Goodwill and Other Intangible Assets, the Company assesses potential impairments to its indefinite-lived intangible assets, including wireless licenses and goodwill, annually and when there is evidence that events or changes in circumstances indicate that an impairment condition may exist. The 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. Estimates of fair value of the Company s wireless licenses are based primarily on available market prices, including successful bid prices in FCC auctions and selling prices observed in wireless license transactions.

Basic and Diluted Net Income (Loss) Per Common Share

Basic earnings per common share is calculated by dividing net income (loss) by the weighted average number of common shares outstanding during the respective periods. Diluted earnings per common share reflects 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.

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Stock-Based Compensation

The Company measures compensation expense for its employee and director stock-based compensation plans using the intrinsic value method. Stock-based compensation is amortized over the related vesting periods of the stock awards using an accelerated method. The Predecessor Company recorded unearned stock-based compensation primarily related to its June 2000 acquisition of the remaining 5.11% of Cricket Communications Holdings that it did not already own. All outstanding stock options of the Predecessor Company were cancelled upon emergence from bankruptcy in accordance with the Plan of Reorganization. For the period from August 1, 2004 through September 30, 2004, there were no stock-based compensation plans in existence.

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

	Predecessor Company			
	One Month Ended July 31, 2004 (As Restated)	**Three Months Ended September 30, 2003**	**Seven Months Ended July 31, 2004 (As Restated)**	**Nine Months Ended September 30, 2003**
Net income (loss):				
As reported	$ 959,365	$ (47,417)	$ 913,190	$ (424,674)
Add back stock-based compensation (expense) benefit included in net loss	18	232	(837)	69
Less net pro forma compensation (expense) benefit	1,336	(2,741)	6,209	(8,006)
Pro forma net income (loss)	$ 960,719	$ (49,926)	$ 918,562	$ (432,611)
Basic and diluted net income (loss) per common share:				
As reported	$ 16.36	$ (0.81)	$ 15.58	$ (7.23)
Pro forma	$ 16.39	$ (0.85)	$ 15.67	$ (7.37)

Reclassifications

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

Note 4. Supplementary Financial Information

Supplementary Balance Sheet Information (unaudited) (in thousands):

	Successor Company September 30, 2004 (As Restated)	Predecessor Company December 31, 2003
Property and equipment, net:		
Network equipment	$ 566,444	$ 1,385,919
Computer equipment and other	23,286	100,031
Construction-in-progress	13,696	24,723
	603,426	1,510,673
Accumulated depreciation	(23,746)	(693,598)
	$ 579,680	$ 817,075
Accounts payable and accrued liabilities:		
Trade accounts payable	$ 26,221	$ 15,300
Accrued payroll and related benefits	16,381	9,358
Other accrued liabilities	49,061	39,827
	$ 91,663	$ 64,485
Other current liabilities:		
Accrued taxes	$ 45,155	$ 21,718
Deferred revenue	18,801	23,532
Accrued interest	338	4,502
Other	2,977	5,171
	$ 67,271	$ 54,923

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

	Successor Company	Predecessor Company	
	Two Months Ended September 30, 2004	Seven Months Ended July 31, 2004	Nine Months Ended September 30, 2003
Supplementary disclosure of cash flow information:			
Cash paid for interest	$ 8,227	$	$ 15,945
Cash provided by (paid for) reorganization activities, (included in net cash provided by operating activities):			
Payments to Leap Creditor Trust		(990)	
Payments for professional fees		(7,975)	(3,830)
Cash received from vendor settlements, net of cure amounts paid		1,984	
Interest income		1,485	2,066

Supplementary Basic and Diluted Net Loss Per Common Share Information:

The weighted average number of shares outstanding were the same for the calculation of basic net earnings (loss) per common share and diluted net earnings (loss) per common share for all periods presented in the statement of operations. The following shares were not included in the computation of diluted earnings (loss) per share as their effect would have been antidilutive (unaudited) (in thousands):

	Successor Company	Predecessor Company	
	Two Months Ended September 30, 2004	One Month Ended July 31, 2004	Three Months Ended September 30, 2003
Employee stock options		5,312	7,188
Non-vested restricted stock		76	88
Senior and Senior Discount Note warrants		2,830	2,830
Qualcomm warrant		3,375	3,375
Warrant to Chase Telecommunications Holdings, Inc		95	95
Warrant to MCG	600		

	Successor Company	Predecessor Company	
	Two Months Ended	Seven Months Ended July 31,	Nine Months Ended

	September 30, 2004	2004	September 30, 2003
Employee stock options		5,312	7,188
Non-vested restricted stock		76	88
Senior and Senior Discount Note warrants		2,830	2,830
Qualcomm warrant		3,375	3,375
Warrant to Chase Telecommunications Holdings, Inc		95	95
Warrant to MCG	600		

Pursuant to the Plan of Reorganization, all outstanding options and warrants to purchase Leap common stock were cancelled in connection with the cancellation of the Predecessor Company s common stock as of the Effective Date of the Plan of Reorganization. In addition, as of the Effective Date of the Plan of Reorganization, the Company issued (a) 60 million shares of new Leap common stock to two classes of creditors, the members of which became the new equity holders of the Successor Company and (b) warrants to MCG PCS, Inc (MCG) to purchase 600,000 shares of common stock of reorganized Leap at an exercise price of $16.83 per share, which warrants expire on March 23, 2009. The warrants were valued using Black-Scholes principles and ascribed a fair value of approximately $13.8 million at July 31, 2004.

Note 5. Liabilities Subject to Compromise

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Liabilities subject to compromise refer to liabilities of the Predecessor Company incurred prior to the Petition Date that are with unrelated parties. Substantially all of the Predecessor Company s pre-petition liabilities, other than principal and interest payable to the FCC, have been classified as liabilities subject to compromise in the condensed consolidated balance sheet. Adjustments to liabilities subject to compromise resulted from negotiations, actions of the Bankruptcy Court, rejection of executory contracts including leases, implementation of the Plan of Reorganization, or other events.

The following table summarizes the components of liabilities subject to compromise in the Predecessor Company s condensed consolidated balance sheet (in thousands):

	December 31, 2003
Accounts payable and accrued liabilities	$ 18,590
Debt in default subject to compromise	2,357,484
Other current liabilities	15,675
Other long-term liabilities	9,773
Total liabilities subject to compromise	$ 2,401,522

Note 6. Debt

New 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. The notes mature on August 16, 2011, the seventh anniversary of the Effective Date of the Plan of Reorganization. The notes bear interest at 13% per annum. Interest on the notes is payable semi-annually in February and August. Interest is payable in cash, except Cricket may elect to pay up to 12% interest on each of the first four regularly scheduled interest payment dates by issuing additional notes in a principal amount equal to the amount of interest not paid in cash. The notes are issued in denominations of $100 in principal amount and larger integral multiples thereof.

The notes are secured by all of the personal property and any owned real property of Leap and its direct and indirect subsidiaries. The notes are also secured by all of the stock of Leap s direct and indirect subsidiaries. The notes are guaranteed by Leap and all of its direct and indirect subsidiaries (other than Cricket which is the primary obligor under the notes).

Cricket may redeem the outstanding notes in whole or in part at any time, in cash at a redemption price equal to: 106.5% of their principal amount plus accrued and unpaid interest during the first full year following the Effective Date of the Plan of Reorganization, declining gradually to 100% in the fifth full year thereafter and at any time thereafter. The notes are recorded at a premium which is being amortized over the term of the debt using the effective interest method.

The indenture that governs the new notes contains significant limitations on the Company s ability to incur additional debt or to grant additional liens on its assets. The Company must meet certain financial ratios in order to incur additional unsecured indebtedness, subject to certain limited exceptions. In addition, the indenture permits the Company to incur up to $50 million of additional debt outstanding at any one time to procure equipment, inventory and telecommunications network assets. This additional debt may be secured, but only by the equipment, inventory or

network assets financed with the proceeds of the debt. The terms of the notes include other covenants that restrict the Company s ability to, among other things: pay dividends; make investments; sell assets; issue or sell the stock of some of Leap s subsidiaries; enter into transactions with affiliates; and effect a consolidation or merger. These limitations are subject to certain qualifications and exceptions contained in the indenture governing the new notes.

Upon the occurrence of events constituting a change of control of the Company, Cricket must make an offer to all noteholders to repurchase all or part of each holder s notes in cash at a purchase price equal to 101% of their principal amount plus accrued and unpaid interest. In addition, in some cases if the Company sells assets and does not use the net proceeds of the sale either to retire secured debt or to reinvest in other assets that are used in its business, Cricket must offer to repurchase the notes at a purchase price equal to 101% of their principal amount plus accrued and unpaid interest.

Events of default under the notes include, among others, the Company s failure to make payments under the notes when due, failure to comply with covenants or other provisions under the indenture governing the notes or the related security documents, defaulting under other indebtedness with an aggregate principal amount in excess of $10 million and which default gives the holder thereof the right to accelerate payment of the debt, a final judgment or order not covered by insurance for the payment of money of $10 million or more is rendered against the Company and the judgment or order is not stayed or discharged for a period of 30

consecutive days after entry, the bankruptcy or insolvency of Leap or Cricket or their subsidiaries, any security document or guaranty of the notes ceases to be in full force and effect, or the loss, suspension, revocation or non-renewal of wireless licenses covering 50% or more of the total potential customers covered by all of the Company s wireless licenses. In the case of an event of default arising from bankruptcy or insolvency, all outstanding notes become immediately due and payable.

Debt in Default Not Subject to Compromise

Debt in default not subject to compromise at December 31, 2003 consisted entirely of debt obligations to the FCC of $74.1 million (net of a $2.6 million discount) incurred as part of the purchase price for wireless licenses. The original terms of the notes include interest rates generally ranging from 6.25% to 7.0% per annum (9.75% per annum on the note associated with the Denver license) and quarterly principal and interest payments until the originally scheduled maturities ranging from September 2006 to June 2007.

The Company classified the principal and interest balances outstanding under its U.S. government financing as a short-term obligation in the Predecessor Company s condensed consolidated balance sheet as of December 31, 2003 as a result of the Company s Chapter 11 filings, which constituted an event of default of the underlying notes. Payments of principal and interest under the Company s U.S. government financing were stayed during the pendency of the Chapter 11 proceedings.

In its order approving the change of control of the Company s wireless licenses, the FCC denied Leap s request for a waiver of certain FCC regulations relating to Leap s status as a small business or very small business, and determined that Leap would not be a small business or very small business following its emergence from bankruptcy. Pursuant to the Plan of Reorganization and a settlement agreement between Cricket, certain license subsidiaries and the FCC, the Company paid the FCC on the Effective Date of the Plan of Reorganization approximately $36.7 million for unpaid principal and approximately $8.3 million of accrued interest in connection with the reinstatement of its FCC debt, and approximately $278,000 of unjust enrichment penalties. The FCC s order and settlement agreement also require the applicable license subsidiaries to repay approximately $40 million in principal amount that remained outstanding on the Effective Date, plus accrued interest, to the FCC in installments scheduled for April and July 2005. The Company also agreed in the settlement agreement to use reasonable efforts to complete a refinancing on or prior to January 31, 2005 generating net proceeds sufficient to repay the 13% senior secured pay-in-kind notes that Cricket issued upon emergence from bankruptcy and the Company s remaining indebtedness to the FCC. The Company must repay its debt to the FCC with the net proceeds of any debt offering, but only to the extent that such net proceeds exceed the amount necessary to repay the 13% senior secured pay-in-kind notes. This remaining obligation to the FCC is secured by the wireless licenses that were originally purchased with installment payment financing from the FCC.

At July 31, 2004, the remaining principal of the FCC debt was revalued in connection with our adoption of fresh start reporting. The carrying value of this debt at September 30, 2004 was $40.6 million, including a premium of $607,000 which is being amortized over the remaining term of the debt using the effective interest method.

Debt in Default Subject to Compromise

Predecessor Company debt in default subject to compromise is summarized as follows (in thousands):

	December 31, 2003
Senior Notes	$ 224,623
Senior Discount Notes	504,393

Senior secured vendor credit facilities	1,618,284
Note payable to GLH	8,643
Qualcomm term loan	1,541
	$ 2,357,484

Amounts presented for the Senior Notes, the note payable to GLH and the Qualcomm term loan include principal and interest accrued through the Petition Date. Amounts presented for the Senior Discount Notes include accreted principal and interest accrued through the Petition Date. Amounts presented for the senior secured vendor credit facilities include principal, interest and fees accrued through the Petition Date. On the Effective Date of the Plan of Reorganization, all of the Company s pre-petition indebtedness, other than indebtedness owed to the FCC, was cancelled in full.

Note 7. Income Taxes

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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. 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 deferred tax assets. At such time as it is determined that it is more likely than not that the deferred tax ass