LEAP WIRELESS INTERNATIONAL INC
Form 10-Q
August 12, 2004

Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 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 ninety days. Yes x 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 x

The number of shares of registrant s common stock outstanding on August 6, 2004 was 58,704,224.

LEAP WIRELESS INTERNATIONAL, INC

QUARTERLY REPORT ON FORM 10-Q

For the Quarter Ended June 30, 2004

TABLE OF CONTENTS

Table of Contents

PART I

FINANCIAL INFORMATION

Item 1. Financial Statements

LEAP WIRELESS INTERNATIONAL, INC.

(DEBTORS-IN-POSSESSION)

CONDENSED CONSOLIDATED BALANCE SHEETS

(UNAUDITED)
(In thousands)

	June 30, 2004	December 31, 2003
Assets		
Cash and cash equivalents	$ 138,581	$ 84,070
Short-term investments	83,748	65,811
Restricted cash, cash equivalents and short-term investments	44,462	55,954
Funds distributed to Leap Creditor Trust (Note 2)	68,790	67,800
Inventories	31,219	17,680
Other current assets	38,335	39,145
Total current assets	405,135	330,460
Property and equipment, net	698,644	817,075
Wireless licenses, net	561,630	560,056
Other assets	53,946	49,252
Total assets	$ 1,719,355	$ 1,756,843
Liabilities and Stockholders Deficit		
Accounts payable and accrued liabilities	$ 61,795	$ 64,485
Debt in default (Note 6)	74,779	74,112
Other current liabilities	61,282	54,923
Total current liabilities not subject to compromise	197,856	193,520
Other long-term liabilities	60,355	55,157
Total liabilities not subject to compromise	258,211	248,677
Liabilities subject to compromise (Note 5)	2,401,438	2,401,522
Commitments and contingencies (Notes 2 and 7)		
Stockholders deficit:		
Preferred stock authorized 10,000,000 shares; $.0001 par value, no shares issued and outstanding		
Common stock authorized 300,000,000 shares; $.0001 par value, 58,704,224 issued and outstanding at June 30, 2004 and December 31, 2003	6	6
Additional paid-in capital	1,155,237	1,156,410
Unearned stock-based compensation	(72)	(421)
Accumulated deficit	(2,094,606)	(2,048,431)
Accumulated other comprehensive loss	(859)	(920)
Total stockholders deficit	(940,294)	(893,356)

Total liabilities and stockholders deficit	$ 1,719,355	$ 1,756,843

See accompanying notes to condensed consolidated financial statements.

1

Table of Contents

LEAP WIRELESS INTERNATIONAL, INC.

(DEBTORS-IN-POSSESSION)

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

AND COMPREHENSIVE LOSS
(UNAUDITED)
(In thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
Revenues:				
Service revenues	$ 172,025	$ 162,415	$ 341,076	$ 323,063
Equipment revenues	33,676	23,229	71,447	46,428
Total revenues	205,701	185,644	412,523	369,491
Operating expenses:				
Cost of service (exclusive of items shown separately below)	(47,827)	(53,321)	(95,827)	(106,069)
Cost of equipment	(40,635)	(41,366)	(84,390)	(83,806)
Selling and marketing	(21,939)	(22,478)	(45,192)	(43,743)
General and administrative	(33,922)	(40,569)	(72,532)	(87,983)
Depreciation and amortization	(76,026)	(74,537)	(151,487)	(151,152)
Impairment of indefinite-lived intangible assets		(171,140)		(171,140)
Impairment of long-lived assets and related charges	(360)	(9,913)	(360)	(18,638)
Total operating expenses	(220,709)	(413,324)	(449,788)	(662,531)
Gains on sale of wireless licenses				1,472
Operating loss	(15,008)	(227,680)	(37,265)	(291,568)
Interest income		85		779
Interest expense (contractual interest expense was $67.2 million and $61.8 million for the three months ended June 30, 2004 and 2003, respectively, and $133.6 million and $122.7 million for the six months ended June 30, 2004 and 2003, respectively)	(1,908)	(11,804)	(3,731)	(79,951)
Other income (expense), net	(615)	100	(596)	(168)
Loss before reorganization items and income taxes	(17,531)	(239,299)	(41,592)	(370,908)
Reorganization items, net	1,313	(2,368)	(712)	(2,368)
Loss before income taxes	(16,218)	(241,667)	(42,304)	(373,276)
Income taxes	(1,927)	(2,052)	(3,871)	(3,981)
Net loss	$ (18,145)	$ (243,719)	$ (46,175)	$ (377,257)

Other comprehensive loss:

Unrealized holding gains (losses) on investments, net	(204)	211	61	85
Comprehensive loss	$ (18,349)	$ (243,508)	$ (46,114)	$ (377,172)
Basic and diluted net loss per common share	$ (0.31)	$ (4.16)	$ (.79)	$ (6.44)
Shares used in per share calculations:				
Basic and diluted	58,622	58,595	58,621	58,595

See accompanying notes to condensed consolidated financial statements.

Table of Contents

LEAP WIRELESS INTERNATIONAL, INC.

(DEBTORS-IN-POSSESSION)

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)
(In thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	**2003**	**2004**	**2003**
Operating activities:				
Net cash provided by operating activities	$ 49,175	$ 54,031	$ 89,935	$ 83,212
Investing activities:				
Purchase of property and equipment	(14,261)	(14,733)	(30,418)	(18,955)
Net proceeds from sales of wireless licenses				1,472
Purchase of investments	(37,118)	(33,789)	(70,769)	(56,229)
Sale and maturity of investments	34,943	29,737	51,793	54,991
Restricted cash, cash equivalents and short-term investments, net	11,370	14,037	13,970	13,756
Net cash used in investing activities	(5,066)	(4,748)	(35,424)	(4,965)
Financing activities:				
Repayment of long-term debt				(4,365)
Issuance of common stock		50		50
Net cash provided by (used in) financing activities		50		(4,315)
Net increase in cash and cash equivalents	44,109	49,333	54,511	73,932
Cash and cash equivalents at beginning of period	94,472	125,459	84,070	100,860
Cash and cash equivalents at end of period	$ 138,581	$ 174,792	$ 138,581	$ 174,792

See accompanying notes to condensed consolidated financial statements.

3

LEAP WIRELESS INTERNATIONAL, INC.

(DEBTORS-IN-POSSESSION)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 1. The Company and Nature of Business

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), a wholly owned subsidiary of Cricket Communications Holdings, Inc. (Cricket Communications Holdings). Cricket and the related subsidiaries of Leap and Cricket that hold assets that are used in Cricket s wireless communications business or that hold assets pledged under Cricket s senior secured vendor credit facilities are collectively referred to herein as the Cricket Companies. As of June 30, 2004, the Company provided wireless service in 39 markets.

Note 2. 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. Each of the debtors continues 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.

The Company s Chapter 11 filings, combined with its cumulative net losses, raise substantial doubt about its ability to continue as a going concern.

Plan of Reorganization

On October 22, 2003, the Bankruptcy Court entered an order confirming the Company s Fifth Amended Joint Plan of Reorganization, including certain technical amendments thereto (the Plan of Reorganization). Upon satisfaction of the conditions precedent to effectiveness of the Plan of Reorganization, the Company will emerge from Chapter 11. On August 5, 2004, the Company received all required regulatory approvals from the Federal Communications Commission (the FCC) for the transfer of wireless licenses associated with the change of control that will occur upon the Company s emergence from bankruptcy. The Company expects, but cannot guarantee, that it will satisfy the remaining conditions to the effectiveness of its Plan of Reorganization and emerge from Chapter 11 in the very near future.

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. As a result of the FCC s order, and a concurrent settlement agreement between Cricket and certain license subsidiaries and the FCC, the Company is required to pay to 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 the Company s FCC debt, and approximately $278,000 of unjust enrichment penalties. The order and settlement agreement also require the applicable license subsidiaries to repay approximately $40 million in principal amounts that will remain outstanding on the effective date of the Plan of Reorganization, 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 debt offering on or prior to January 31, 2005 generating net proceeds sufficient to repay the $350 million of senior secured pay-in-kind notes that the Company will issue upon its emergence

Table of Contents

from bankruptcy and the Company s 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 $350 million of senior secured pay-in-kind notes. While the FCC s order is effective upon its release, parties may appeal or seek reconsideration of the order until September 14, 2004.

The Plan of Reorganization implements a comprehensive financial reorganization that will significantly reduce the Company s total outstanding indebtedness. In connection with the Plan of Reorganization, the Company s current long-term debt will be reduced from a book value of more than $2.4 billion to an initial principal amount of approximately $390 million, consisting of the $350 million of senior secured pay-in-kind notes to be issued on the effective date of the Plan of Reorganization and approximately $40 million of remaining indebtedness to the FCC (net of repayment of $45 million of principal and interest to the FCC on the effective date of the Plan of Reorganization). Following is a summary of the material actions that will occur as of the effective date of the Plan of Reorganization:

All of the outstanding shares of Leap common stock, warrants and options will be cancelled. The holders of Leap common stock, warrants and options will not receive any distributions under the Plan of Reorganization. Leap will issue 60 million shares of new Leap common stock to two classes of the Company s creditors, the members of which will become Leap s new shareholders.

The holders of Cricket s senior secured vendor debt claims will receive, on a pro rata basis, 96.5% of the issued and outstanding shares of new Leap common stock as well as new senior secured pay-in-kind notes with an aggregate face value of $350.0 million.

Reorganized Leap will issue 3.5% of its outstanding shares of new Leap common stock to the Leap Creditor Trust for distribution to holders of allowed Leap general unsecured claims on a pro rata basis; and will transfer 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 include a note receivable of $35.0 million that is currently in dispute with Endesa, S.A. (Endesa) (Note 7), nine wireless licenses with a book value of approximately $1.1 million at June 30, 2004, Leap s equity interest in IAT Communications, Inc. which had no carrying value at June 30, 2004, certain causes of action, and approximately $2.3 million of reimbursement from Cricket for cash deposits previously made by Leap in connection with contracts that will be assumed by Leap in the bankruptcy proceedings. As of June 30, 2004, Leap also 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 will be assumed by the reorganized debtors. Reorganized Cricket will pay all cure amounts associated with such contracts and leases.

The holders of general unsecured claims against Cricket will receive de minimus or no distributions in respect of their claims and holders of general unsecured claims against the other subsidiaries of Leap and Cricket will receive no distributions under the Plan of Reorganization.

All of the debtors pre-petition indebtedness, other than indebtedness owed to the FCC, will be cancelled in full, including approximately $1.6 billion net book value of debt outstanding under Cricket s senior secured vendor credit facilities and approximately $739.2 million net book value of debt outstanding under Leap s 12.5% senior notes (Senior Notes), 14.5% senior discount notes (Senior Discount Notes), the note payable to GLH, Inc. (GLH) and the Qualcomm Incorporated (Qualcomm) term loan.

The Company is required to pay 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.

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

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.

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 are subject to compromise be reported separately on the balance sheet at an estimate of the amount that will 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, as of the Petition Date the Company ceased accruing interest and amortizing debt discounts and debt issuance costs for pre-petition debt that is subject to compromise, which included its Senior Notes, Senior Discount Notes, senior secured vendor credit facilities, the note payable to GLH and the Qualcomm term loan.

In connection with its emergence from bankruptcy, the Company intends to adopt the fresh-start reporting provisions of SOP 90-7. In accordance with SOP 90-7, fresh-start reporting should be applied when the reorganization value of the Company is less than the sum of all allowed claims and post-petition liabilities and holders of old common shares receive less than fifty percent of new voting shares. 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 accordance with fresh start reporting, the Company s reorganization value will be allocated to the fair value of its assets and its liabilities will be stated at present values of amounts to be paid. In addition, the Company s accumulated deficit will be eliminated and the new equity will be issued according to the Plan of Reorganization.

Reorganization value will be allocated to the Company s assets in conformity with procedures specified by Statement of Financial Accounting Standards (SFAS) No. 141, Business Combinations. Due to their magnitude and complexity, the fair value of certain assets, including property and equipment and wireless licenses, are being determined with the assistance of independent valuation experts. Any amount remaining after allocation of the reorganization value of the Company to identified tangible and intangible assets, will be reflected as goodwill which will be subject to periodic evaluation for impairment.

The implementation of fresh start reporting will have a material effect on the Company s condensed consolidated financial statements. As a result, the condensed consolidated financial statements that the Company publishes for periods following the effective date of the Plan of Reorganization will not be comparable with those published before such date.

In August 2002, Leap issued 21,020,431 shares of common stock to MCG PCS, Inc. (MCG) pursuant to a binding arbitration award. The Company s issuance of these shares caused an ownership change as defined under Internal Revenue Code Section 382. Accordingly, the Company s ability to utilize its net operating loss and capital loss carryforwards is subject to an annual limitation. Under the Plan of Reorganization, there will be an additional ownership change in connection with the Company s emergence from bankruptcy, which may further limit its ability to utilize its net operating loss and capital loss carryforwards. The Plan of Reorganization contemplates a significant reduction of the Company s outstanding indebtedness and, as a result, the Company expects to realize a significant amount of cancellation of indebtedness income. Although the Company should not be required to recognize such cancellation of indebtedness income for tax purposes, the Company will be required to reduce its net operating loss and capital loss carryforwards by the amount of such excluded income. In addition, under certain circumstances, the Company may be required to reduce the tax basis of its assets by a portion of the excluded income. The Plan of Reorganization further contemplates the merger of certain subsidiaries and the transfer of the stock of certain Leap subsidiaries to Cricket. Management believes that these mergers and transfers will occur pursuant to tax-deferred transactions.

Note 3. Basis of Presentation

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, 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 for a fair presentation. These adjustments are of a normal and recurring nature except for those adjustments described in this Note and Note 2. The interim condensed consolidated financial statements have been prepared on a going concern basis, which contemplates the continuity of operations, realization of assets and satisfaction of liabilities in the ordinary course of business. Operating results for interim periods are not necessarily indicative of operating results for an entire fiscal year.

The condensed consolidated financial statements as of and for the three and six months ended June 30, 2004 do not include adjustments to reflect the effects of the Plan of Reorganization on the recoverability and classification of recorded assets or the amounts and classification of liabilities that may result from the consummation of the Plan of Reorganization.

The amounts reported in subsequent financial statements will materially change due to the restructuring of the Company s assets and liabilities as a result of the effectiveness of the Plan of Reorganization and the application of the provisions of SOP 90-7 with respect to fresh start accounting and reporting. Changes in accounting principles required under generally accepted accounting principles within twelve months of emerging from bankruptcy are required to be adopted as of the date of emergence. For these reasons, the financial statements for periods subsequent to the Company s emergence from Chapter 11 will not be comparable with those of prior periods.

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 has 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 has filed for bankruptcy continues to manage its properties and operate its business as a debtor-in-possession; (ii) management expects, and the Plan of Reorganization contemplates, that Leap will remain the ultimate parent of each of its subsidiaries; (iii) Leap has 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 to be transferred to the Leap Creditor Trust, management expects that Leap and its subsidiaries will retain substantially all of their assets through the date of the Company s emergence from bankruptcy.

Reorganization Items

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
Professional fees	$(1,726)	$(4,521)	$(3,936)	$(4,521)
Gain on settlement of liabilities	2,483	1,467	2,500	1,467
Adjustment of liabilities to allowed amounts			(360)	
Post-petition interest income	556	686	1,084	686
Total reorganization items, net	$ 1,313	$(2,368)	$ (712)	$(2,368)

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. Revenues from wireless services for customers who pay in advance are recognized as services are rendered and amounts received in advance are recorded as deferred revenue. 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 must be 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 three and six months ended June 30, 2004 totaled $4.4 million and $10.2 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.

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.

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. The estimated useful lives are five to seven years for network infrastructure assets, three to five years for computer hardware and software, and three to seven years for furniture, fixtures and retail and office equipment. Leasehold improvements are amortized over the shorter of their estimated useful lives or the remaining term of the related lease.

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 employees, to the extent time and expense are contributed to the construction effort, during the construction period.

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 three months ended June 30, 2004 and 2003, the Company recorded charges of $0.4 million and $9.9 million, respectively, and during the six months ended June 30, 2004 and 2003, $0.4 million and $18.6 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.

The outcome of the Company s Chapter 11 proceedings could materially affect the carrying value of its long-lived assets as a result of fresh start reporting, which requires a different standard for determining the carrying value of these assets than the approach required by the impairment analysis under SFAS No. 144. The Company expects the fair value of its long-lived assets in fresh start reporting could be less than their carrying value at June 30, 2004. See the Accounting Under Chapter 11 subheading of Note 2.

Wireless Licenses

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 June 30, 2004 and December 31, 2003, wireless licenses to be disposed of by sale or exchange were not significant.

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, 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 fourth 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.

During the three months ended June 30, 2003 the Company recorded an impairment charge of $171.1 million to reduce the carrying value of its wireless licenses.

The carrying value of the Company s wireless licenses could be materially modified when the Company implements the fresh start reporting provisions of SOP 90-7. Fresh start reporting requires a different standard for determining the carrying value of the Company s wireless licenses than the approach required by the impairment analysis under SFAS No. 142. See the Accounting Under Chapter 11 subheading of Note 2.

Table of Contents

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 reporting period. 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 and the conversion of convertible preferred securities using the as-if converted method.

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 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.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
Net loss:				
As reported	$(18,145)	$(243,719)	$(46,175)	$(377,257)
Add back stock-based compensation benefit included in net loss	(202)	(378)	(856)	(164)
Less net pro forma compensation (expense) benefit	(1,803)	(1,334)	4,874	(5,264)
Pro forma net loss	$(20,150)	$(245,431)	$(42,157)	$(382,685)
Basic and diluted net loss per common share:				
As reported	$ (0.31)	$ (4.16)	$ (0.79)	$ (6.44)
Pro forma	$ (0.34)	$ (4.19)	$ (0.72)	$ (6.53)

Table of Contents

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):

	June 30, 2004	December 31, 2003
Property and equipment, net:		
Network infrastructure and leasehold improvements	$1,394,870	$1,385,919
Computer equipment and other	106,206	100,031
Construction-in-progress	42,416	24,723
	1,543,492	1,510,673
Accumulated depreciation	(844,848)	(693,598)
	$ 698,644	$ 817,075
Accounts payable and accrued liabilities not subject to compromise:		
Trade accounts payable	$ 7,409	$ 15,300
Accrued payroll and related benefits	17,461	9,358
Other accrued liabilities	36,925	39,827
	$ 61,795	$ 64,485
Other current liabilities not subject to compromise:		
Accrued taxes	$ 29,212	$ 21,718
Deferred revenue	19,588	23,532
Accrued interest	7,552	4,502
Other	4,930	5,171
	$ 61,282	$ 54,923

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
Supplementary disclosure of cash flow information:				
Cash paid for interest	$	$(14,063)	$	$(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	$(4,472)	$ (1,834)	$(6,156)	$ (1,834)
	$ 2,014	$	$ 1,984	$

Cash received from vendor settlements, net of cure amounts paid				
Interest income	$ 556	$ 686	$ 1,084	$ 686

Table of Contents

Supplementary Basic and Diluted Net Loss Per Common Share Information:

Basic and diluted net loss per common share were the same for the three and six months ended June 30, 2004 and for the three and six months ended June 30, 2003. The following shares were not included in the computation of diluted earnings per share as their effect would be antidilutive (unaudited) (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
Employee stock options	5,424	7,463	5,424	7,463
Non-vested restricted stock	76	101	76	101
Senior and Senior Discount Note warrants	2,830	2,830	2,830	2,830
Qualcomm warrant	3,375	3,375	3,375	3,375
Warrant to Chase Telecommunications Holdings, Inc.	95	95	95	95

Pursuant to the Plan of Reorganization, all outstanding options and warrants to purchase Leap common stock will be cancelled in connection with the cancellation of the 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 will issue new Leap common stock to two classes of creditors, the members of which will become the new equity holders of Reorganized Leap.

Note 5. Liabilities Subject to Compromise

Liabilities subject to compromise refer to liabilities of the Company incurred prior to the Petition Date that are with unrelated parties and, for the intercompany amounts presented in the guarantor subsidiary financial statements included in Note 8, related parties. Substantially all of the 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 sheets. Adjustments to liabilities subject to compromise may result 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 Company s condensed consolidated balance sheets (unaudited) (in thousands):

	June 30, 2004	December 31, 2003
Accounts payable and accrued liabilities	$ 18,482	$ 18,590
Debt in default subject to compromise	2,357,490	2,357,484
Other current liabilities	15,582	15,675
Other long-term liabilities	9,884	9,773
Total liabilities subject to compromise	$2,401,438	$2,401,522

Table of Contents

Note 6. Debt in Default

Debt in Default Subject to Compromise

Debt in default subject to compromise is summarized as follows (unaudited) (in thousands):

	June 30, 2004	December 31, 2003
Senior Notes	$ 224,623	$ 224,623
Senior Discount Notes	504,393	504,393
Senior secured vendor credit facilities	1,618,284	1,618,284
Note payable to GLH	8,649	8,643
Qualcomm term loan	1,541	1,541
	$2,357,490	$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.

Debt in Default Not Subject to Compromise

Debt in default not subject to compromise at June 30, 2004 consisted entirely of debt obligations to the FCC of $74.8 million (net of a $1.9 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 maturity through July 2007. The notes were discounted using management s best estimate of the prevailing market interest rate at the time of purchase of the wireless licenses ranging from 9.75% to 10.75% per annum.

The Company has classified the principal and interest balances outstanding under its U.S. government financing as a short-term obligation in the condensed consolidated balance sheets as of June 30, 2004 and 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 are generally stayed during the pendency of the Chapter 11 proceedings. However, see Note 2 above for a description of the terms of a settlement agreement between the Company and the FCC regarding the reinstatement of this indebtedness, the payment the Company is required to make on this indebtedness on the effective date of the Plan of Reorganization and the remaining payment terms that will govern the repayment of this debt to the FCC.

Note 7. Commitments and Contingencies

The Company s wireless licenses include provisions that require the Company to satisfy certain minimum coverage requirements within five and/or ten years after the original license grant date. These initial requirements are met for most 10 MHz licenses when adequate service is offered to at least one-quarter of the population of the licensed area within five years, and for 30 MHz licenses when adequate service is offered to at least one-third of the population within five years and two-thirds of the population within ten years. The Company has met the initial coverage requirements for all of its wireless licenses with initial coverage deadlines in 2004 or earlier. The Company has six wireless licenses with an aggregate carrying value of approximately $4.0 million at June 30, 2004, that have initial coverage deadlines in 2006 that have not yet been met.

Cricket is currently the high bidder for the purchase of a wireless license to provide service in Fresno, California. Cricket currently has agreed to purchase the license from Alpine-Fresno C, LLC for approximately $27.1 million (plus the reimbursement of certain construction expenses not to exceed $500,000). Because the

13

seller has filed for Chapter 11 bankruptcy reorganization, this purchase is subject to an overbid process and sale hearing before the bankruptcy court with jurisdiction over the seller. The overbid auction is currently scheduled for August 12, 2004, and the sale hearing before the bankruptcy court is currently scheduled for August 13, 2004.

On the Petition Date, Leap, Cricket and substantially all of their subsidiaries filed voluntary petitions for relief under Chapter 11 in the United States Bankruptcy Court for the Southern District of California. Each of the debtors continues 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 through the effective date of the Plan of Reorganization. On October 22, 2003, the Bankruptcy Court entered an order confirming the Plan of Reorganization. As a result of the Chapter 11 filings, attempts to collect, secure or enforce remedies with respect to most pre-petition claims against the debtors are subject to the automatic stay provisions of Section 362(a) of Chapter 11.

The Plan of Reorganization provides for certain conditions that must be fulfilled prior to its effective date, including FCC approval of the change of control of the Company s wireless licenses that will occur upon its emergence from bankruptcy. The FCC granted the required approval to the Company on August 5, 2004. The Company expects, but cannot guarantee, that it will satisfy the remaining conditions to the effectiveness of its Plan of Reorganization and to emerge from Chapter 11 in the very near future.

On October 24, 2003, MCG filed a motion with the Bankruptcy Court seeking to stay the implementation of the Plan of Reorganization while MCG pursued an appeal of the Bankruptcy Court s confirmation order. On October 28, 2003, the Bankruptcy Court denied MCG s motion for a stay, permitting the Company to proceed with the Plan of Reorganization. Previously, on August 1, 2003, Leap filed an action in the Bankruptcy Court against MCG and Michael C. Gelfand, MCG s sole stockholder, seeking to (a) avoid and recover from the defendants a preferential payment of $1.5 million and (b) subordinate MCG s alleged general unsecured claim for $39.8 million to the same priority as that of other common stockholders. On January 30, 2004, Leap, MCG, Michael Gelfand, the Leap Creditor Trust, the Official Unsecured Creditors Committee of Leap and the informal committee of Cricket s senior secured vendor debtholders agreed to settle their various disputes. Under the settlement agreement, the parties have agreed to dismiss their respective claims and litigations and to grant each other mutual releases, in exchange for Cricket paying a portion of MCG s attorneys fees and expenses incurred in connection with the Chapter 11 cases (subject to a maximum of $750,000) and reorganized Leap issuing to MCG a five-year warrant to purchase up to one percent of the issued and outstanding common shares of reorganized Leap on the effective date of the Plan of Reorganization with an aggregate exercise price currently estimated to be approximately $10 million (calculated as one percent of the difference between $1.05 billion and the aggregate amount of outstanding debt owed by the Company to the FCC as reinstated upon its emergence from bankruptcy and after the payment of all past due amounts then owing to the FCC with respect to such debt). The Bankruptcy Court entered an order approving the settlement, and that order became effective on March 21, 2004. The settlement agreement may be terminated by Leap if a third party objects to the Company s wireless license transfer applications filed with the FCC in connection with the Plan of Reorganization. As of June 30, 2004, no objections to Leap s transfer applications had been filed with the FCC. As of June 30, 2004, no adjustments have been made in the Company s condensed consolidated financial statements related to the ultimate outcome of this matter.

American Wireless Group, LLC (AWG) has filed a claim for $28 million against Leap in the Bankruptcy Court based on the same general claims made by the plaintiffs in the AWG Lawsuit, as discussed below. On October 6, 2003, Leap filed an action in the Bankruptcy Court against AWG and certain of its members seeking to subordinate AWG s alleged general unsecured claims to the same priority as that of other common stockholders under section 510(b) of the Bankruptcy Code. AWG agreed to subordinate its claim and on March 8, 2004 the Bankruptcy Court entered its order approving the Stipulation and Consent Judgment subordinating AWG s claim.

From April 1999 to the date of sale on June 2, 2000, Leap owned 100% of Smartcom, S.A. (Smartcom), a Chilean corporation that operates a nationwide wireless network in Chile. On June 2, 2000, Leap completed the sale of Smartcom to Endesa, S.A., (Endesa) a Spanish company. Leap has a $35.0 million promissory note payable by Endesa as of June 2, 2001. That note is subject to a right of set-off to secure indemnification claims under the purchase agreement. Endesa has asserted claims of up to approximately $49.0 million against Leap for breach of representations and warranties under the purchase agreement and has notified Leap that it is offsetting the claims against the entire unpaid balance of the note. The note matured on June 2, 2001 and Leap expects it to remain unpaid until the issues related to the claims are resolved. Proceedings relating to the resolution of these claims were initiated by Endesa in June 2001 and remain pending before the 19th Civil Court of Santiago in the Republic of Chile. Leap believes Endesa s claims are without merit, and is defending Endesa s lawsuit and therefore has made no provisions against the value of the note in its condensed consolidated financial statements. Management of Leap believes that the ultimate outcome of this matter will not have a material adverse effect on Leap s consolidated financial position or results of operations. Leap also filed an action against Endesa in the Bankruptcy Court with respect to the promissory note, seeking to collect the amount due under the note. On March 11, 2004, the Bankruptcy Court rendered a decision to abstain from taking any further action in the matter before it. The Bankruptcy Court stayed that action and lifted the automatic stay so that the litigation could proceed in Chile. The order became effective March 21, 2004. However the Bankruptcy Court s order allowed Endesa only to seek set-offs against the amount it owes under the promissory note and Endesa is precluded from seeking any affirmative relief against Leap. In accordance with the Plan of Reorganization, the note will be transferred to the Leap Creditor Trust on the effective date.

Between December 5, 2002 and February 7, 2003, nine securities class action lawsuits were filed against Leap, and certain of its officers and directors, in the United States District Court for the Southern District of California on behalf of all persons who purchased or otherwise acquired Leap s common stock from February 11, 2002 through July 24, 2002 (the Class Period). Those lawsuits were all virtually identical to one another. On March 14, 2003, the court entered plaintiffs stipulation and order for the appointment of lead plaintiffs and approval of lead plaintiffs selection of lead counsel and ordered the cases consolidated into a single action entitled In re Leap Wireless Securities Litigation, Case No. 02-CV-2388J (AJB). On May 23, 2003, the plaintiffs filed an amended complaint which named only Harvey White and Susan Swenson as defendants. The amended complaint alleges that the defendants were responsible for the dissemination of a series of material misrepresentations to the market during the Class Period, thereby artificially inflating the price of Leap s common stock in violation of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, and Rule 10b-5 promulgated thereunder. Plaintiffs allege that defendants concealed the deteriorated value of Leap s wireless licenses by relying upon a fraudulent impairment test of those assets, which resulted in a gross and material overstatement of the value of Leap s assets in its consolidated financial statements. The amended complaint also claims that misrepresentations were made regarding certain business metrics related to the operation of Leap s subsidiary, Cricket Communications. The complaint seeks an unspecified amount of damages, plus costs and expenses related to bringing the actions. No class has yet been certified in the lawsuit. On July 29, 2003, the defendants filed a motion to dismiss the amended complaint. The defendants motion to dismiss states, among other matters, that the amended complaint fails to plead any facts which show that any representations made by Leap or the defendants were false or that any of the alleged misrepresentations caused a change in the value of Leap s shares. Plaintiffs filed an opposition to the motion to dismiss and the defendants have filed a reply. The court has taken the matter under submission and will decide the motion based on the papers filed. Although Leap is not a defendant in the case, plaintiffs continue to pursue the individual defendants. The two named defendants have asserted claims for indemnity against the debtors, including Leap. Management believes that the liability, if any, from the indemnity claims filed by the defendants against the Company is not probable and estimable; therefore, no accrual has been made in the Company s condensed consolidated financial statements as of June 30, 2004 related to this contingency.

On December 31, 2002, several members of AWG filed a lawsuit against various officers and directors of Leap in the Circuit Court of the First Judicial District of Hinds County, Mississippi (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 MCG relating to MCG s claim that it was entitled to an increase in the purchase price for certain wireless licenses it sold to Leap. The dispute with MCG resulted in an award against Leap in an arbitration proceeding in 2002. Leap satisfied the award by issuing 21,020,431 of Leap shares to MCG. Plaintiffs claim that the result in the arbitration and the subsequent issuance of shares to MCG, caused a decrease in the value of the shares transferred to AWG for the FCC licenses. Leap is not a defendant in the Whittington Lawsuit. Instead, plaintiffs contend that the named defendants are the controlling group that was responsible for Leap s alleged fraudulent failure to disclose the material facts regarding the MCG dispute and the risk that the shares held by the plaintiffs might be diluted if MCG was successful in the arbitration. On May 16, 2003, plaintiffs filed an amended complaint which set forth the same allegations against the defendants, but added several additional plaintiffs. On May 29, 2003, the defendants removed the Whittington Lawsuit from state court in Mississippi to the United States District Court for the Southern District of Mississippi in Jackson. Plaintiffs filed a motion to remand the case to state court. Defendants have filed a motion to dismiss the Whittington Lawsuit noting, among other matters, that plaintiffs failed to plead facts which show that they are entitled to relief, that Leap made adequate disclosure of the relevant facts regarding the MCG dispute, and that any failure to disclose such information did not cause any damage to the plaintiffs. The named defendants have asserted claims of indemnity against the debtors, including Leap.

In a related action, on June 6, 2003, AWG filed a lawsuit in the Circuit Court of the First Judicial District of Hinds County, Mississippi (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. On June 26, 2003, the defendants removed the AWG Lawsuit from state court in Mississippi to the United States District Court for the Southern District of Mississippi in Jackson. Plaintiffs filed a motion to remand the case to state court. Defendants have filed a motion to dismiss the AWG Lawsuit, making arguments similar to these made in their motion to dismiss the Whittington Lawsuit. The named defendants have asserted claims for indemnity against the debtors, including Leap.

Management believes that the liability, if any, from the AWG and Whittington Lawsuits and the related indemnity claims filed by the defendants against the debtors is not probable and estimable; therefore, no accrual has been made in the Company s condensed consolidated financial statements as of June 30, 2004 related to these contingencies.

On February 24, 2003, plaintiff Steven Zawalick filed a purported derivative action in the Supreme Court of the State of New York, Case No. 03600591, on behalf of Leap against Morgan Stanley & Co., Inc., Donaldson Lufkin Jenrette Securities Corporation, Bear Stearns & Co., Inc., ABN AMRO Incorporated and Credit Suisse First Boston Corp., each of whom were initial purchasers in the private placement of Leap s debt securities on February 23, 2000. Leap was also named as a nominal defendant in the lawsuit. The complaint alleges that the sales were disguised brokerage transactions and that the investment banking firms charged excessive brokerage fees in violation of New York General Obligations Law Section 5-531, which limits the fees payable to loan brokers. The complaint sought compensatory damages, costs and fees in connection with bringing suit, and other remedies. Leap believes the plaintiff lacked a right to bring the claim and that any action taken in the lawsuit after the April 13, 2003 commencement of the bankruptcy is in violation of the automatic stay of the bankruptcy code. On June 23, 2003, plaintiff served the complaint on Leap as a nominal defendant. In response, Leap filed with the court a notice of commencement of the bankruptcy and automatic stay of all proceedings against it. Plaintiff did not take any action to proceed with the lawsuit or to lift the stay. The New York court entered an order on November 25, 2003 that the Plaintiff s pursuit of the case be discontinued. Upon the effectiveness of the Plan of Reorganization, any rights Leap may have under this action will be transferred to the Leap Creditor Trust.

In March 2000, the Company completed the acquisition of substantially all of the assets of Chase Telecommunications Holdings, Inc., including wireless licenses. The purchase price included $6.3 million in cash, the assumption of principal amounts of liabilities that totaled $138.0 million (with a fair value of $131.3 million), a warrant to purchase 202,566 shares of Leap common stock at an aggregate exercise price of $1.0 million (of which 94,999 shares remain exercisable at June 30, 2004), and contingent earn out payments of up to $41.0 million (plus certain expenses) based on the earnings of the business acquired during the fifth full year following the closing of the acquisition. The obligation to pay the contingent earn-out payment was

Table of Contents

generally assigned to and assumed by Cricket in 1999. However, the Company rejected all remaining obligations under the asset purchase agreement, including the earn-out obligations, in bankruptcy.

The Company is often involved in various 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 June 30, 2004 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 condensed consolidated financial position, results of operations or cash flows.

In addition to the monthly fees paid by the Company to the financial advisor to the Official Unsecured Creditors Committee of Leap and the financial advisor to the informal committee of Cricket s senior secured vendor debtholders, the Company has agreed to pay up to $7.0 million to these advisors and the Company s financial advisor upon the effectiveness of the Plan of Reorganization.

Note 8. Subsidiary Guarantee

The Company s Senior Notes and Senior Discount Notes are guaranteed by Cricket Communications Holdings, Inc., Backwire.com, Inc. and Telephone Entertainment Network, Inc., all of which are subsidiaries of Leap. Because the guarantor subsidiaries are wholly owned subsidiaries of the Company and the guarantee provided by the guarantor subsidiaries is full, unconditional and joint and several among the guarantor subsidiaries, full financial statements of the guarantor subsidiaries are not required to be issued. Condensed consolidating financial information of Leap, the guarantor subsidiaries and non-guarantor subsidiaries of Leap as of June 30, 2004 and December 31, 2003 and for the three and six months ended June 30, 2004 and 2003 is presented below. The subsidiaries of Cricket Communications Holdings are not guarantors of the Senior Notes and Senior Discount Notes and are therefore reflected as investments accounted for under the equity method of accounting in the guarantor subsidiaries financial information.

Table of Contents

Balance Sheet Information as of June 30, 2004 (unaudited) (in thousands):

	Leap	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Assets					
Cash and cash equivalents	$	$	$138,581	$	$138,581
Short-term investments			83,748		83,748
Restricted cash, cash equivalents and short-term investments	11,259		33,203		44,462
Funds distributed to Leap Creditor Trust	68,790				68,790
Inventories			31,219		31,219
Other current assets	420		37,915		38,335
Total current assets	80,469		324,666		405,135
Property and equipment, net	1,706		696,938		698,644
Investment in subsidiaries	(289,136)	(825,570)			