

LEAP WIRELESS INTERNATIONAL INC
Form 10-Q
August 05, 2011

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2011

OR

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

For the transition period from _____ to _____

Commission File Number: 001-34865

Leap Wireless International, Inc.

(Exact name of registrant as specified in its charter)

Delaware

33-0811062

(State or other jurisdiction of

(I.R.S. Employer

incorporation or organization)

Identification No.)

5887 Copley Drive, San Diego, CA

92111

(Address of Principal Executive Offices)

(Zip Code)

(858) 882-6000

(Registrant's telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

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 R No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes R No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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Large accelerated filer R Accelerated filer o Non-accelerated filer o Smaller reporting company o
(Do not check if a smaller reporting company)

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

The number of shares outstanding of the registrant's common stock on July 29, 2011 was 78,696,465.

LEAP WIRELESS INTERNATIONAL, INC.

QUARTERLY REPORT ON FORM 10-Q
For the Quarter Ended June 30, 2011

TABLE OF CONTENTS

| | Page |
|---|-----------|
| PART I - FINANCIAL INFORMATION | |
| <u>Item 1.</u> <u>Financial Statements</u> | <u>1</u> |
| <u>Item 2.</u> <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | <u>32</u> |
| <u>Item 3.</u> <u>Quantitative and Qualitative Disclosures About Market Risk</u> | <u>54</u> |
| <u>Item 4.</u> <u>Controls and Procedures</u> | <u>54</u> |
| PART II - OTHER INFORMATION | |
| <u>Item 1.</u> <u>Legal Proceedings</u> | <u>56</u> |
| <u>Item 1A.</u> <u>Risk Factors</u> | <u>57</u> |
| <u>Item 2.</u> <u>Unregistered Sales of Equity Securities and Use of Proceeds</u> | <u>76</u> |
| <u>Item 3.</u> <u>Defaults Upon Senior Securities</u> | <u>76</u> |
| <u>Item 5.</u> <u>Other Information</u> | <u>76</u> |
| <u>Item 6.</u> <u>Exhibits</u> | <u>77</u> |

PART I

FINANCIAL INFORMATION

Item 1. Financial Statements

LEAP WIRELESS INTERNATIONAL, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share amounts)

| | June 30, 2011 (Unaudited) | December 31, 2010 |
|---|---------------------------------|----------------------|
| Assets | | |
| Cash and cash equivalents | \$508,119 | \$350,790 |
| Short-term investments | 215,895 | 68,367 |
| Inventories | 101,022 | 104,241 |
| Deferred charges | 46,233 | 47,343 |
| Other current assets | 137,972 | 91,010 |
| Total current assets | 1,009,241 | 661,751 |
| Property and equipment, net | 1,976,394 | 2,036,645 |
| Wireless licenses | 1,943,244 | 1,968,075 |
| Assets held for sale (Note 9) | 27,677 | — |
| Goodwill (Note 2) | 31,654 | 31,094 |
| Intangible assets, net | 52,315 | 64,843 |
| Other assets | 63,535 | 72,415 |
| Total assets | \$5,104,060 | \$4,834,823 |
| Liabilities and Stockholders' Equity | | |
| Accounts payable and accrued liabilities | \$308,712 | \$346,869 |
| Current maturities of long-term debt | 8,500 | 8,500 |
| Other current liabilities | 233,789 | 221,077 |
| Total current liabilities | 551,001 | 576,446 |
| Long-term debt | 3,217,089 | 2,832,070 |
| Deferred tax liabilities | 314,379 | 295,703 |
| Other long-term liabilities | 141,430 | 114,534 |
| Total liabilities | 4,223,899 | 3,818,753 |
| Redeemable non-controlling interests | 119,060 | 104,788 |
| Commitments and contingencies (Note 12) | | |
| Stockholders' equity: | | |
| Preferred stock - authorized 10,000,000 shares, \$.0001 par value; no shares issued and outstanding | — | — |
| Common stock - authorized 160,000,000 shares, \$.0001 par value; 78,664,667 and 78,437,309 shares issued and outstanding at June 30, 2011 and December 31, 2010, respectively | 8 | 8 |
| Additional paid-in capital | 2,150,404 | 2,155,712 |
| Accumulated deficit | (1,388,622) | (1,243,740) |
| Accumulated other comprehensive loss | (689) | (698) |
| Total stockholders' equity | 761,101 | 911,282 |

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| | | |
|--|-------------|-------------|
| Total liabilities and stockholders' equity | \$5,104,060 | \$4,834,823 |
|--|-------------|-------------|

See accompanying notes to condensed consolidated financial statements.

1

LEAP WIRELESS INTERNATIONAL, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited and in thousands, except per share data)

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|--------------------------------|-------------|---------------------------|-------------|
| | 2011 | 2010 | 2011 | 2010 |
| Revenues: | | | | |
| Service revenues | \$704,087 | \$630,804 | \$1,382,498 | \$1,245,432 |
| Equipment revenues | 56,451 | 36,542 | 157,954 | 105,674 |
| Total revenues | 760,538 | 667,346 | 1,540,452 | 1,351,106 |
| Operating expenses: | | | | |
| Cost of service (exclusive of items shown separately below) | 244,870 | 209,608 | 480,815 | 405,348 |
| Cost of equipment | 182,677 | 111,041 | 412,472 | 279,094 |
| Selling and marketing | 87,161 | 96,449 | 197,013 | 208,333 |
| General and administrative | 92,079 | 88,944 | 187,488 | 181,200 |
| Depreciation and amortization | 136,137 | 110,649 | 262,811 | 219,895 |
| Impairments and other charges | 631 | — | 631 | — |
| Total operating expenses | 743,555 | 616,691 | 1,541,230 | 1,293,870 |
| Loss on sale or disposal of assets | (4,646) | (1,488) | (4,995) | (2,941) |
| Operating income (loss) | 12,337 | 49,167 | (5,773) | 54,295 |
| Equity in net income of investees, net | 1,010 | 887 | 2,189 | 1,458 |
| Interest income | 59 | 294 | 123 | 722 |
| Interest expense | (61,923) | (60,296) | (120,742) | (120,591) |
| Other income (expense), net | (32) | 3,057 | (32) | 3,072 |
| Loss before income taxes | (48,549) | (6,891) | (124,235) | (61,044) |
| Income tax expense | (9,893) | (12,397) | (20,647) | (23,691) |
| Net loss | (58,442) | (19,288) | (144,882) | (84,735) |
| Accretion of redeemable non-controlling interests and distributions, net of tax | (6,769) | 1,050 | (16,540) | (1,537) |
| Net loss attributable to common stockholders | \$(65,211) | \$(18,238) | \$(161,422) | \$(86,272) |
| Loss per share attributable to common stockholders: | | | | |
| Basic | \$(0.85) | \$(0.24) | \$(2.11) | \$(1.14) |
| Diluted | \$(0.85) | \$(0.24) | \$(2.11) | \$(1.14) |
| Shares used in per share calculations: | | | | |
| Basic | 76,497 | 75,846 | 76,436 | 75,820 |
| Diluted | 76,497 | 75,846 | 76,436 | 75,820 |

See accompanying notes to condensed consolidated financial statements.

LEAP WIRELESS INTERNATIONAL, INC.

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

| | Six Months Ended June | |
|--|-----------------------|--------------|
| | 30, | |
| | 2011 | 2010 |
| Operating activities: | | |
| Net cash provided by operating activities | \$ 101,639 | \$ 204,406 |
| Investing activities: | | |
| Acquisition of a business | (850) | — |
| Purchases of property and equipment | (186,186) | (195,405) |
| Change in prepayments for purchases of property and equipment | (2,953) | (2,836) |
| Purchases of wireless licenses and spectrum clearing costs | (2,845) | (1,827) |
| Proceeds from sales of wireless licenses and operating assets | 468 | — |
| Purchases of investments | (297,430) | (301,399) |
| Sales and maturities of investments | 149,767 | 427,287 |
| Purchase of membership units of equity investment | — | (967) |
| Change in restricted cash | (420) | 378 |
| Net cash used in investing activities | (340,449) | (74,769) |
| Financing activities: | | |
| Proceeds from issuance of long-term debt | 396,772 | — |
| Repayment of long-term debt | (15,089) | (4,000) |
| Payment of debt issuance costs | (6,680) | — |
| Purchase of non-controlling interest | — | (20,973) |
| Proceeds from issuance of common stock, net | 712 | 904 |
| Proceeds from sale lease-back financing | 23,891 | — |
| Other | (3,467) | (979) |
| Net cash provided by (used in) financing activities | 396,139 | (25,048) |
| Net increase in cash and cash equivalents | 157,329 | 104,589 |
| Cash and cash equivalents at beginning of period | 350,790 | 174,999 |
| Cash and cash equivalents at end of period | \$ 508,119 | \$ 279,588 |
| Supplementary disclosure of cash flow information: | | |
| Cash paid for interest | \$(102,328) | \$(115,528) |
| Cash paid for income taxes | \$(2,974) | \$(2,977) |
| Non-cash investing and financing activities: | | |
| Contribution of wireless licenses in exchange for an equity interest | \$— | \$2,381 |

See accompanying notes to condensed consolidated financial statements.

LEAP WIRELESS INTERNATIONAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 1. The Company

Leap Wireless International, Inc. (“Leap”), a Delaware corporation, together with its subsidiaries and consolidated joint ventures, is a wireless communications carrier that offers digital wireless services in the United States under the “Cricket” brand. Cricket service offerings provide customers with unlimited nationwide wireless services for a flat rate without requiring a fixed-term contract or a credit check. The Company's primary service is Cricket Wireless, which offers customers unlimited nationwide voice and data services for a flat monthly rate. Leap conducts operations through its subsidiaries and has no independent operations or sources of income other than interest income and through dividends, if any, from its subsidiaries.

Cricket service is offered by Cricket Communications, Inc. (“Cricket”), a wholly-owned subsidiary of Leap. Cricket service is also offered in South Texas by the Company's joint venture, STX Wireless Operations, LLC (“STX Operations”), which Cricket controls through a 75.75% controlling membership interest in its parent company STX Wireless, LLC (“STX Wireless”). In addition, Cricket owns an 85% non-controlling membership interest in Savary Island Wireless, LLC (“Savary Island”), which holds wireless spectrum in the upper Midwest portion of the U.S. and which leases a portion of that spectrum to Cricket. For more information regarding the ventures described above, see “Note 9. Significant Acquisitions and Other Transactions.”

Leap, Cricket and their subsidiaries and consolidated joint ventures are collectively referred to herein as the “Company.”

Note 2. Basis of Presentation and Significant Accounting Policies

Basis of Presentation

The accompanying interim condensed consolidated financial statements have been prepared 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 (“GAAP”) for a complete set of financial statements. These condensed consolidated financial statements 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, 2010. In the opinion of management, the unaudited financial information for the interim periods presented reflects all adjustments necessary for a fair presentation of the Company's results for the periods presented, with such adjustments consisting only of normal recurring adjustments. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the reported amounts of revenues and expenses. By their nature, estimates are subject to an inherent degree of uncertainty. Actual results could differ from management's estimates and 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 operating results and financial position of Leap and its wholly-owned subsidiaries and consolidated joint ventures. The Company consolidates its non-controlling interest in Savary Island in accordance with the authoritative guidance for the consolidation of variable interest entities because Savary Island is a variable interest entity and the Company has entered into an agreement with Savary Island's other member which establishes a specified purchase price in the event that it exercises its right to sell its membership interest to the Company. The Company consolidates STX Wireless in accordance with the authoritative guidance for

consolidations based on the voting interest model. All intercompany accounts and transactions have been eliminated in the condensed consolidated financial statements.

Segment and Geographic Data

The Company operates in a single operating segment and a single reporting unit as a wireless communications carrier that offers digital wireless services in the United States. As of and for the three and six months ended June 30, 2011, all of the Company's revenues and long-lived assets related to operations in the United States.

Revenues

The Company's business revenues principally arise from the sale of wireless services, devices (handsets and broadband modems) and accessories. Wireless services are provided primarily on a month-to-month basis. The Company's customers are required to pay for their service in advance and the Company does not require customers to sign fixed-term contracts or pass a credit check. Service revenues are recognized only after payment has been received and services have been rendered.

When the Company activates service for a new customer, it typically sells that customer a device along with a period of service. In accordance with the authoritative guidance for revenue arrangements with multiple deliverables, the sale of a device along with service constitutes a multiple element arrangement. Under this guidance, once a company has determined the fair value of the elements in the sales transaction, the total consideration received from the customer must be allocated among those elements on a relative fair value basis. Applying the guidance to these transactions results in the Company recognizing the total consideration received, less amounts allocated to the wireless service period (generally the customer's monthly rate plan), as equipment revenue.

Amounts allocated to equipment revenues and related costs from the sale of devices are recognized when service is activated by new customers. Revenues and related costs from the sale of devices and accessories to existing customers are recognized at the point of sale. The costs of devices and accessories sold are recorded in cost of equipment. In addition to devices that the Company sells directly to its customers at Cricket-owned stores, the Company sells devices to third-party dealers, including mass-merchant retailers. These dealers then sell the devices to the ultimate Cricket customer, similar to the sale made at a Cricket-owned store. Sales of devices to third-party dealers are recognized as equipment revenues only when service is activated by customers, since the level of price reductions and commissions ultimately available to such dealers is not reliably estimable until the devices are sold by such dealers to customers. Thus, revenues from devices sold to third-party dealers are recorded as deferred equipment revenue and the related costs of the devices are recorded as deferred charges upon shipment of the devices by the Company. The deferred charges are recognized as equipment costs when the related equipment revenue is recognized, which occurs when service is activated by the customer.

Through a third-party provider, the Company's customers may elect to participate in an extended warranty program for devices they purchase. The Company recognizes revenue on replacement devices sold to its customers under the program when the customer purchases the device.

Sales incentives offered to customers and commissions and sales incentives offered to the Company's third-party dealers are recognized as a reduction of revenue when the related service or equipment revenue is recognized. Customers have limited rights to return devices and accessories based on time and/or usage, and customer returns of devices and accessories have historically been insignificant.

Amounts billed by the Company in advance of customers' wireless service periods are not reflected in accounts receivable or deferred revenue since collectability of such amounts is not reasonably assured. Deferred revenue consists primarily of cash received from customers in advance of their service period and deferred equipment revenue related to devices sold to third-party dealers.

Universal Service Fund, E-911 and other telecommunications-related regulatory fees are assessed by various federal and state governmental agencies in connection with the services that the Company provides to its customers. Regulatory fees and telecommunications taxes collected from customers are recorded in service revenues and amounts owed and remitted to government agencies are recorded in cost of service. During the three and six months ended June 30, 2011, the total amount of regulatory fees and telecommunications taxes separately billed and collected from

customers and recorded in service revenues was \$9.5 million and \$21.0 million, respectively. During the three and six months ended June 30, 2010, the total amount of regulatory fees and telecommunications taxes separately billed and collected from customers and recorded in service revenues was \$32.2 million and \$60.8 million, respectively. Sales, use and excise taxes for all service plans are reported on a net basis.

Restricted Cash, Cash Equivalents and Short-Term Investments

The Company has set aside certain amounts of cash, cash equivalents and short term investments to satisfy certain contractual obligations and has classified such amounts as restricted in its condensed consolidated balance sheets. Restricted cash, cash equivalents and short-term investments are included in either other current assets or other assets, depending on the nature of the underlying contractual obligation. As of June 30, 2011, the Company had approximately \$3.6 million and \$8.2 million of restricted cash, cash equivalents and short-term investments, included in other current assets and other assets, respectively. As of December 31, 2010, the Company had approximately \$3.6 million and \$7.8 million of restricted cash, cash equivalents and short-term investments, included in other current assets and other assets, respectively.

Goodwill

The Company records the excess of the purchase price over the fair value of net assets acquired in a business combination as goodwill. As of December 31, 2010, goodwill of \$31.1 million represented the excess of the purchase price over the fair values of the assets acquired (net of liabilities assumed, including the related deferred tax effects) by STX Wireless in connection with the formation of the joint venture. For more information regarding the joint venture, see "Note 9. Significant Acquisitions and Other Transactions."

On January 3, 2011, the Company acquired a customer assistance call center from various entities doing business as Pocket Communications ("Pocket") for \$850,000. The Company accounted for this transaction as a business purchase combination in accordance with the authoritative guidance for business combinations. A portion of the purchase price was assigned to property and equipment and the remaining amount was allocated to goodwill.

Goodwill is tested for impairment annually as well as when an event or change in circumstance indicates an impairment may have occurred. In addition, on a quarterly basis, the Company evaluates the triggering event criteria outlined in the authoritative guidance for the impairment or disposal of long-lived assets to determine whether events or changes in circumstances indicate that an impairment condition may exist. The following table summarizes the changes in the carrying amount of the Company's goodwill during the six months ended June 30, 2011 (in thousands):

| | Six Months Ended June 30, 2011 |
|------------------------------|--------------------------------------|
| Beginning balance, January 1 | \$31,094 |
| Goodwill acquired | 560 |
| Ending balance, June 30 | \$31,654 |

Recent Accounting Pronouncements

In May 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2011-04, "Fair Value Measurements (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs," ("ASU 2011-04"). ASU 2011-04 redefines many of the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements to ensure consistency between U.S. GAAP and IFRS. ASU 2011-04 also expands the disclosures for fair value measurements that are estimated using significant unobservable (Level 3) inputs. This new guidance is effective for the Company beginning in the first quarter of 2012 and is to be applied prospectively. The Company anticipates that the adoption of this standard will not materially expand its consolidated financial statement footnote disclosures.

In June 2011, the FASB issued Accounting Standards Update No. 2011-05, "Comprehensive Income (Topic 220): Presentation of Comprehensive Income," ("ASU 2011-05"). ASU 2011-05 eliminates the option to report other comprehensive income and its components in the statement of changes in equity. ASU 2011-05 requires that all nonowner changes in stockholders' equity be presented in either a single continuous statement of comprehensive income or in two separate but consecutive statements. This new guidance is effective for the Company beginning in the first quarter of 2012 and is to be applied retrospectively.

Note 3. Supplementary Balance Sheet Information (in thousands):

| | June 30, 2011 | December 31, 2010 | |
|---|------------------|----------------------|---|
| Other current assets: | | | |
| Accounts receivable, net(1) | \$59,321 | \$50,750 | |
| Prepaid expenses | 40,258 | 27,493 | |
| Other | 38,393 | 12,767 | |
| | \$137,972 | \$91,010 | |
| Property and equipment, net: | | | |
| Network equipment | \$3,160,211 | \$3,095,793 | |
| Computer hardware and software | 487,087 | 342,972 | |
| Construction-in-progress | 72,018 | 146,973 | |
| Other | 115,218 | 108,273 | |
| | 3,834,534 | 3,694,011 | |
| Accumulated depreciation | (1,858,140 |) (1,657,366 |) |
| | \$1,976,394 | \$2,036,645 | |
| Intangible assets, net: | | | |
| Customer relationships | \$57,782 | \$57,782 | |
| Trademarks | 37,000 | 37,000 | |
| | 94,782 | 94,782 | |
| Accumulated amortization of customer relationships | (24,187 |) (12,980 |) |
| Accumulated amortization of trademarks | (18,280 |) (16,959 |) |
| | \$52,315 | \$64,843 | |
| Accounts payable and accrued liabilities: | | | |
| Trade accounts payable | \$152,569 | \$205,824 | |
| Accrued payroll and related benefits | 56,464 | 55,290 | |
| Other accrued liabilities | 99,679 | 85,755 | |
| | \$308,712 | \$346,869 | |
| Other current liabilities: | | | |
| Deferred service revenue(2) | \$106,400 | \$101,343 | |
| Deferred equipment revenue(3) | 30,601 | 26,564 | |
| Accrued sales, telecommunications, property and other taxes payable | 31,340 | 44,942 | |
| Accrued interest | 56,006 | 40,804 | |
| Other | 9,442 | 7,424 | |
| | \$233,789 | \$221,077 | |

Accounts receivable, net, consists primarily of amounts billed to third-party dealers for devices and accessories and (1) amounts due from service providers related to interconnect and roaming agreements, net of an allowance for doubtful accounts.

(2) Deferred service revenue consists primarily of cash received from customers in advance of their service period.

(3) Deferred equipment revenue relates to devices sold to third-party dealers which have not yet been purchased and activated by customers.

Note 4. Fair Value of Financial Instruments

Fair Value of Financial Instruments

The authoritative guidance for fair value measurements defines fair value for accounting purposes, establishes a framework for measuring fair value and provides disclosure requirements regarding fair value measurements. The guidance defines fair value as an exit price, which is the price that would be received upon the sale of an asset or paid upon the transfer of a liability in an orderly transaction between market participants at the measurement date. The degree of judgment utilized in measuring the fair value of assets and liabilities generally correlates to the level of pricing observability. Assets and liabilities with readily available, actively quoted prices or for which fair value can be measured from actively quoted prices in active markets generally have more pricing observability and require less judgment in measuring fair value. Conversely, assets and liabilities that are rarely traded or not quoted have less pricing observability and are generally measured at fair value using valuation models that require more judgment. These valuation techniques involve some level of management estimation and judgment, the degree of which is dependent on the price transparency of the asset, liability or market and the nature of the asset or liability.

The Company has categorized its assets and liabilities measured at fair value into a three-level hierarchy in accordance with the authoritative guidance for fair value measurements. Assets and liabilities measured at fair value using quoted prices in active markets for identical assets or liabilities are generally categorized as Level 1; assets and liabilities measured at fair value using observable market-based inputs or unobservable inputs that are corroborated by market data for similar assets or liabilities are generally categorized as Level 2; and assets and liabilities measured at fair value using unobservable inputs that cannot be corroborated by market data are generally categorized as Level 3. Assets and liabilities presented at fair value in the Company's condensed consolidated balance sheets are generally categorized as follows:

- Level 1: Quoted prices in active markets for identical assets or liabilities. The Company did not have any Level 1 assets or liabilities as of June 30, 2011 or December 31, 2010.
- Level 2: Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. The Company's Level 2 assets as of June 30, 2011 and December 31, 2010 included its cash equivalents, its short-term investments in obligations of the U.S. government and government agencies and its short-term investments in commercial paper.
- Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Such assets and liabilities may have values determined using pricing models, discounted cash flow methodologies, or similar techniques, and include instruments for which the determination of fair value requires significant management judgment or estimation. The Company did not have any Level 3 assets or liabilities as of June 30, 2011 or December 31, 2010.

The following tables set forth by level within the fair value hierarchy the Company's assets and liabilities that were recorded at fair value as of June 30, 2011 and December 31, 2010 (in thousands). As required by the guidance for fair value measurements, financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. Thus, assets and liabilities categorized as Level 3 may be measured at fair value using inputs that are observable (Levels 1 and 2) and unobservable (Level 3). Management's assessment of the significance of a particular input to the fair value measurement requires judgment, which may affect the valuation of assets and liabilities and their placement within the fair value hierarchy levels.

| At Fair Value as of June 30, 2011 | | | | Total |
|-----------------------------------|---------|---------|--|-------|
| Level 1 | Level 2 | Level 3 | | |

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Assets:

| | | | | |
|---|-----|-----------|-----|-----------|
| Money market funds | \$— | \$231,417 | \$— | \$231,417 |
| Commercial paper | — | 181,886 | — | 181,886 |
| U.S. government or government agency securities | — | 265,261 | — | 265,261 |
| Total | \$— | \$678,564 | \$— | \$678,564 |

8

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| | At Fair Value as of December 31, 2010 | | | Total |
|---|---------------------------------------|-----------|---------|-----------|
| | Level 1 | Level 2 | Level 3 | |
| Assets: | | | | |
| Money market funds | \$— | \$168,831 | \$— | \$168,831 |
| Commercial paper | — | 17,494 | — | 17,494 |
| U.S. government or government agency securities | — | 108,364 | — | 108,364 |
| Total | \$— | \$294,689 | \$— | \$294,689 |

Assets in the tables above are reported on the condensed consolidated balance sheets as components of cash and cash equivalents, short-term investments, other current assets and other assets.

Unrealized gains (losses) are presented in accumulated other comprehensive loss within stockholders' equity in the condensed consolidated balance sheets. Realized gains (losses) are presented in other income (expense), net in the condensed consolidated statements of operations.

Cash Equivalents and Short-Term Investments

As of June 30, 2011 and December 31, 2010, all of the Company's short-term investments were debt securities with contractual maturities of less than one year and were classified as available-for-sale. The fair value of the Company's cash equivalents, short-term investments in obligations of the U.S. government and government agencies and a majority of its short-term investments in commercial paper is determined using observable market-based inputs for similar assets, which primarily include yield curves and time-to-maturity factors. Such investments are therefore considered to be Level 2 items.

Available-for-sale securities were comprised as follows as of June 30, 2011 and December 31, 2010 (in thousands):

| | As of June 30, 2011 | |
|---|---------------------|------------|
| | Cost | Fair Value |
| Money market funds | \$231,417 | \$231,417 |
| Commercial paper | 181,884 | 181,886 |
| U.S. government or government agency securities | 265,251 | 265,261 |
| | \$678,552 | \$678,564 |
| As of December 31, 2010 | | |
| | Cost | Fair Value |
| Money market funds | \$168,831 | \$168,831 |
| Commercial paper | 17,494 | 17,494 |
| U.S. government or government agency securities | 108,364 | 108,364 |
| | \$294,689 | \$294,689 |

Long-Term Debt

The Company reports its long-term debt obligations at amortized cost; however, for disclosure purposes, the Company is required to measure the fair value of outstanding debt on a recurring basis. The fair value of the Company's outstanding long-term debt is determined primarily by using quoted prices in active markets and was \$3,338.5 million and \$2,876.8 million as of June 30, 2011 and December 31, 2010, respectively.

Assets Measured at Fair Value on a Nonrecurring Basis

During the period ended June 30, 2011, there were no non-financial assets that were measured and recorded at fair value on a non-recurring basis.

9

Note 5. Long-Term Debt

Long-term debt as of June 30, 2011 and December 31, 2010 was comprised of the following (in thousands):

| | June 30, 2011 | December 31, 2010 |
|---|------------------|----------------------|
| Convertible senior notes due 2014 | \$250,000 | \$250,000 |
| Unsecured senior notes due 2015 | 300,000 | 300,000 |
| Non-negotiable promissory note due 2015 | 30,411 | 45,500 |
| Senior secured notes due 2016 | 1,100,000 | 1,100,000 |
| Unamortized discount on \$1,100 million senior secured notes due 2016 | (32,339 |) (34,962 |
| Unsecured senior notes due 2020 | 1,600,000 | 1,200,000 |
| Unamortized discount on \$1,600 million unsecured senior notes due 2020 | (22,483 |) (19,968 |
| | 3,225,589 | 2,840,570 |
| Current maturities of long-term debt | (8,500 |) (8,500 |
| | \$3,217,089 | \$2,832,070 |

Senior Notes

Convertible Senior Notes Due 2014

In June 2008, Leap issued \$250 million of unsecured convertible senior notes due 2014 in a private placement to institutional buyers. The notes bear interest at the rate of 4.50% per year, payable semi-annually in cash in arrears, which interest payments commenced in January 2009. The notes are Leap's general unsecured obligations and rank equally in right of payment with all of Leap's existing and future senior unsecured indebtedness and senior in right of payment to all indebtedness that is contractually subordinated to the notes. The notes are structurally subordinated to the existing and future claims of Leap's subsidiaries' creditors, including under the secured and unsecured senior notes described below. The notes are effectively junior to all of Leap's existing and future secured obligations, including those under the senior secured notes described below, to the extent of the value of the assets securing such obligations.

Holders may convert their notes into shares of Leap common stock at any time on or prior to the third scheduled trading day prior to the maturity date of the notes, July 15, 2014. If, at the time of conversion, the applicable stock price of Leap common stock is less than or equal to approximately \$93.21 per share, the notes will be convertible into 10.7290 shares of Leap common stock per \$1,000 principal amount of the notes (referred to as the "base conversion rate"), subject to adjustment upon the occurrence of certain events. If, at the time of conversion, the applicable stock price of Leap common stock exceeds approximately \$93.21 per share, the conversion rate will be determined pursuant to a formula based on the base conversion rate and an incremental share factor of 8.3150 shares per \$1,000 principal amount of the notes, subject to adjustment.

Leap may be required to repurchase all outstanding notes in cash at a repurchase price of 100% of the principal amount of the notes, plus accrued and unpaid interest, if any, thereon to the repurchase date if (1) any person acquires beneficial ownership, directly or indirectly, of shares of Leap's capital stock that would entitle the person to exercise 50% or more of the total voting power of all of Leap's capital stock entitled to vote in the election of directors, (2) Leap (i) merges or consolidates with or into any other person, another person merges with or into Leap, or Leap conveys, sells, transfers or leases all or substantially all of its assets to another person or (ii) engages in any recapitalization, reclassification or other transaction in which all or substantially all of Leap common stock is exchanged for or converted into cash, securities or other property, in each case subject to limitations and excluding in the case of (1) and (2) any merger or consolidation where at least 90% of the consideration consists of shares of

common stock traded on NYSE, ASE or NASDAQ, (3) a majority of the members of Leap's board of directors ceases to consist of individuals who were directors on the date of original issuance of the notes or whose election or nomination for election was previously approved by the board of directors, (4) Leap is liquidated or dissolved or holders of common stock approve any plan or proposal for its liquidation or dissolution or (5) shares of Leap common stock are not listed for trading on any of the New York Stock Exchange, the NASDAQ Global Market or the NASDAQ Global Select Market (or any of their respective successors). Leap may not redeem the notes at its option.

Unsecured Senior Notes Due 2015

In June 2008, Cricket issued \$300 million of 10.0% unsecured senior notes due 2015 in a private placement to institutional buyers. The notes bear interest at the rate of 10.0% per year, payable semi-annually in cash in arrears, which interest payments commenced in January 2009. The notes are guaranteed on an unsecured senior basis by Leap and each of its existing and future domestic subsidiaries (other than Cricket, which is the issuer of the notes) that guarantees indebtedness for borrowed money of Leap, Cricket or any subsidiary guarantor. The notes and the guarantees are Leap's, Cricket's and the guarantors' general senior unsecured obligations and rank equally in right of payment with all of Leap's, Cricket's and the guarantors' existing and future unsubordinated unsecured indebtedness. The notes and the guarantees are effectively junior to Leap's, Cricket's and the guarantors' existing and future secured obligations, including those under the senior secured notes described below, to the extent of the value of the assets securing such obligations, as well as to existing and future liabilities of Leap's and Cricket's subsidiaries that are not guarantors (including STX Wireless) and Savary Island and their respective subsidiaries. In addition, the notes and the guarantees are senior in right of payment to any of Leap's, Cricket's and the guarantors' future subordinated indebtedness.

Prior to July 15, 2012, Cricket may redeem the notes, in whole or in part, at a redemption price equal to 100% of the principal amount thereof plus the applicable premium and any accrued and unpaid interest, if any, thereon to the redemption date. The applicable premium is calculated as the greater of (i) 1.0% of the principal amount of such notes and (ii) the excess of (a) the present value at such date of redemption of (1) the redemption price of such notes at July 15, 2012 plus (2) all remaining required interest payments due on such notes through July 15, 2012 (excluding accrued but unpaid interest to the date of redemption), computed using a discount rate equal to the Treasury Rate plus 50 basis points, over (b) the principal amount of such notes. The notes may be redeemed, in whole or in part, at any time on or after July 15, 2012, at a redemption price of 105.0% and 102.5% of the principal amount thereof if redeemed during the twelve months beginning on July 15, 2012 and 2013, respectively, or at 100% of the principal amount if redeemed during the twelve months beginning on July 15, 2014 or thereafter, plus accrued and unpaid interest, if any, thereon to the redemption date.

If a "change of control" occurs (which includes the acquisition of beneficial ownership of 35% or more of Leap's equity securities, a sale of all or substantially all of the assets of Leap and its restricted subsidiaries and a change in a majority of the members of Leap's board of directors that is not approved by the board), each holder of the notes may require Cricket to repurchase all of such holder's notes at a purchase price equal to 101% of the principal amount of the notes, plus accrued and unpaid interest, if any, thereon to the repurchase date.

Non-Negotiable Promissory Note Due 2015

Cricket service was previously offered in greater Chicago and Southern Wisconsin by Denali Spectrum, LLC ("Denali"), an entity in which the Company owned an 82.5% non-controlling membership interest. In December 2010, Cricket purchased the remaining 17.5% controlling membership interest in Denali that it did not previously own. As part of the purchase price, Cricket issued a five-year \$45.5 million non-negotiable promissory note in favor of the former holder of such controlling membership interest, which matures on December 27, 2015. Interest on the outstanding principal balance of the note varies from year to year at rates ranging from approximately 5.0% to 8.3% and compounds annually. Under the note, Cricket is required to make principal payments of \$8.5 million per year, with the remaining principal balance and all accrued interest payable at maturity. Cricket's obligations under the note are secured on a first-lien basis by certain assets of Savary Island. On May 4, 2011, Cricket prepaid approximately \$15.1 million in principal amount of the note. As of June 30, 2011 and December 31, 2010, \$30.4 million and \$45.5 million in principal amount of indebtedness was outstanding under the note, respectively.

Senior Secured Notes Due 2016

In June 2009, Cricket issued \$1,100 million of 7.75% senior secured notes due 2016 in a private placement to institutional buyers at an issue price of 96.134% of the principal amount, which notes were exchanged in December 2009 for identical notes that had been registered with the SEC. The \$42.5 million discount to the net proceeds the Company received in connection with the issuance of the notes has been recorded in long-term debt in the condensed consolidated financial statements and is being accreted as an increase to interest expense over the term of the notes. At June 30, 2011, the effective interest rate on the notes was 7.98%, which includes the effect of the discount accretion.

The notes bear interest at the rate of 7.75% per year, payable semi-annually in cash in arrears, which interest payments commenced in November 2009. The notes are guaranteed on a senior secured basis by Leap and each of its existing and future domestic subsidiaries (other than Cricket, which is the issuer of the notes) that guarantees any indebtedness of Leap, Cricket or any subsidiary guarantor. The notes and the guarantees are Leap's, Cricket's and the guarantors' senior secured obligations and are equal in right of payment with all of Leap's, Cricket's and the guarantors' existing and future unsubordinated indebtedness.

The notes and the guarantees are effectively senior to all of Leap's, Cricket's and the guarantors' existing and future unsecured indebtedness (including Cricket's \$1,900 million aggregate principal amount of unsecured senior notes and, in the case of Leap, Leap's \$250 million aggregate principal amount of convertible senior notes), as well as to all of Leap's, Cricket's and the guarantors' obligations under any permitted junior lien debt that may be incurred in the future, in each case to the extent of the value of the collateral securing the senior secured notes and the guarantees.

The notes and the guarantees are secured on a pari passu basis with all of Leap's, Cricket's and the guarantors' obligations under any permitted parity lien debt that may be incurred in the future. Leap, Cricket and the guarantors are permitted to incur debt under existing and future secured credit facilities in an aggregate principal amount outstanding (including the aggregate principal amount outstanding of the senior secured notes) of up to the greater of \$1,500 million and 3.0 times Leap's consolidated cash flow (excluding the consolidated cash flow of Savary Island and STX Wireless) for the prior four fiscal quarters through December 31, 2011, and stepping down to 2.5 times such consolidated cash flow for any such debt incurred after December 31, 2011.

The notes and the guarantees are effectively junior to all of Leap's, Cricket's and the guarantors' obligations under any permitted priority debt that may be incurred in the future (up to the lesser of 0.30 times Leap's consolidated cash flow (excluding the consolidated cash flow of Savary Island and STX Wireless) for the prior four fiscal quarters and \$300 million in aggregate principal amount outstanding), to the extent of the value of the collateral securing such permitted priority debt, as well as to existing and future liabilities of Leap's and Cricket's subsidiaries that are not guarantors (including STX Wireless) and Savary Island and their respective subsidiaries. In addition, the notes and the guarantees are senior in right of payment to any of Leap's, Cricket's and the guarantors' future subordinated indebtedness.

The notes and the guarantees are secured on a first-priority basis, equally and ratably with any future parity lien debt, by liens on substantially all of the present and future personal property of Leap, Cricket and the guarantors, except for certain excluded assets and subject to permitted liens (including liens on the collateral securing any future permitted priority debt).

Prior to May 15, 2012, Cricket may redeem up to 35% of the aggregate principal amount of the notes at a redemption price of 107.750% of the principal amount thereof, plus accrued and unpaid interest thereon to the redemption date, from the net cash proceeds of specified equity offerings. Prior to May 15, 2012, Cricket may redeem the notes, in whole or in part, at a redemption price equal to 100% of the principal amount thereof plus the applicable premium and any accrued and unpaid interest thereon to the redemption date. The applicable premium is calculated as the greater of (i) 1.0% of the principal amount of such notes and (ii) the excess of (a) the present value at such date of redemption of (1) the redemption price of such notes at May 15, 2012 plus (2) all remaining required interest payments due on such notes through May 15, 2012 (excluding accrued but unpaid interest to the date of redemption), computed using a discount rate equal to the Treasury Rate plus 50 basis points, over (b) the principal amount of such notes. The notes may be redeemed, in whole or in part, at any time on or after May 15, 2012, at a redemption price of 105.813%, 103.875% and 101.938% of the principal amount thereof if redeemed during the twelve months beginning on May 15, 2012, 2013 and 2014, respectively, or at 100% of the principal amount if redeemed during the twelve months beginning on May 15, 2015 or thereafter, plus accrued and unpaid interest thereon to the redemption date.

If a "change of control" occurs (which includes the acquisition of beneficial ownership of 35% or more of Leap's equity securities (other than a transaction where immediately after such transaction Leap will be a wholly-owned subsidiary of a person of which no person or group is the beneficial owner of 35% or more of such person's voting stock), a sale of all or substantially all of the assets of Leap and its restricted subsidiaries and a change in a majority of the members of Leap's board of directors that is not approved by the board), each holder of the notes may require Cricket to repurchase all of such holder's notes at a purchase price equal to 101% of the principal amount of the notes, plus accrued and unpaid interest thereon to the repurchase date.

Unsecured Senior Notes Due 2020

In November 2010, Cricket issued \$1,200 million of 7.75% unsecured senior notes due 2020 in a private placement to institutional buyers at an issue price of 98.323% of the principal amount, which were exchanged in January 2011 for identical notes that had been registered with the SEC. The \$20.1 million discount to the net proceeds the Company received in connection with the issuance of the notes has been recorded in long-term debt in the condensed consolidated financial statements and is being accreted as an increase to interest expense over the term of the notes. In May 2011, Cricket issued an additional \$400 million of 7.75% unsecured senior notes due 2020 in a private placement to institutional buyers at an issue price of 99.193% of the principal amount. The \$3.2 million discount to the net proceeds the Company received in connection with the issuance of the additional notes was recorded in long-term debt in the condensed consolidated financial statements and is being accreted as an increase to interest expense over the term of the notes. At June 30, 2011, the effective interest rates on the initial \$1,200 million tranche and the additional \$400 million tranche of the notes were 7.88% and 7.81%, respectively, both of which include the effect of the discount accretion.

The notes bear interest at the rate of 7.75% per year, payable semi-annually in cash in arrears, which interest payments commenced in April 2011. The notes are guaranteed on an unsecured senior basis by Leap and each of its existing and future domestic subsidiaries (other than Cricket, which is the issuer of the notes) that guarantees indebtedness of Leap, Cricket or any subsidiary guarantor. The notes and the guarantees are Leap's, Cricket's and the guarantors' general senior unsecured obligations and rank equally in right of payment with all of Leap's, Cricket's and the guarantors' existing and future unsubordinated unsecured indebtedness. The notes and the guarantees are effectively junior to Leap's, Cricket's and the guarantors' existing and future secured obligations, including those under the senior secured notes described above, to the extent of the value of the assets securing such obligations, as well as to existing and future liabilities of Leap's and Cricket's subsidiaries that are not guarantors (including STX Wireless) and Savary Island and their respective subsidiaries. In addition, the notes and the guarantees are senior in right of payment to any of Leap's, Cricket's and the guarantors' future subordinated indebtedness.

Prior to October 15, 2013, Cricket may redeem up to 35% of the aggregate principal amount of the notes at a redemption price of 107.750% of the principal amount thereof, plus accrued and unpaid interest and additional interest, if any, thereon to the redemption date, from the net cash proceeds of specified equity offerings. Prior to October 15, 2015, Cricket may redeem the notes, in whole or in part, at a redemption price equal to 100% of the principal amount thereof plus the applicable premium and any accrued and unpaid interest and additional interest, if any, thereon to the redemption date. The applicable premium is calculated as the greater of (i) 1.0% of the principal amount of such notes and (ii) the excess of (a) the present value at such date of redemption of (1) the redemption price of such notes at October 15, 2015 plus (2) all remaining required interest payments due on such notes through October 15, 2015 (excluding accrued but unpaid interest to the date of redemption), computed using a discount rate equal to the Treasury Rate plus 50 basis points, over (b) the principal amount of such notes. The notes may be redeemed, in whole or in part, at any time on or after October 15, 2015, at a redemption price of 103.875%, 102.583% and 101.292% of the principal amount thereof if redeemed during the twelve months beginning on October 15, 2015, 2016 and 2017, respectively, or at 100% of the principal amount if redeemed during the twelve months beginning on October 15, 2018 or thereafter, plus accrued and unpaid interest and additional interest, if any, thereon to the redemption date.

If a "change of control" occurs (which includes the acquisition of beneficial ownership of 35% or more of Leap's equity securities (other than a transaction where immediately after such transaction Leap will be a wholly-owned subsidiary of a person of which no person or group is the beneficial owner of 35% or more of such person's voting stock), a sale of all or substantially all of the assets of Leap and its restricted subsidiaries and a change in a majority of the members of Leap's board of directors that is not approved by the board), each holder of the notes may require Cricket to repurchase all of such holder's notes at a purchase price equal to 101% of the principal amount of the notes, plus accrued and unpaid interest and additional interest, if any, thereon to the repurchase date.

In connection with the private placement of the additional \$400 million of notes in May 2011, the Company entered into a registration rights agreement with the purchasers in which the Company agreed to file a registration statement with the SEC to permit the holders to exchange or resell the notes. The Company must use reasonable best efforts to file such registration statement within 150 days after the issuance of the notes, have the registration statement declared effective within 270 days after the issuance of the notes and then consummate any exchange offer within 30 business days after the effective date of the registration statement. In the event that the registration statement is not filed or declared effective or the exchange offer is not consummated within these deadlines, the agreement provides that additional interest will accrue on the principal amount of these additional notes at a rate of 0.50% per annum during the 90-day period immediately following any of these events and will increase by 0.50% per annum at the end of each subsequent 90-day period, but in no event will the penalty rate exceed 1.50% per annum. There are no other alternative settlement methods and, other than the 1.50% per annum maximum penalty rate, the agreement contains no limit on the maximum potential amount of additional interest that could be paid in the event the Company does not meet the requirements under the registration rights agreement.

Note 6. Share-based Compensation

The Company accounts for share-based awards exchanged for employee services in accordance with the authoritative guidance for share-based payments. Under the guidance, share-based compensation expense is measured at the grant date, based on the estimated fair value of the award, and is recognized as expense, net of estimated forfeitures, over the employee's requisite service period.

Total share-based compensation expense related to all of the Company's share-based awards for the three and six months ended June 30, 2011 and 2010 was allocated in the condensed consolidated statements of operations as follows (in thousands, except per share data):

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|--------------------------------|----------|------------------------------|----------|
| | 2011 | 2010 | 2011 | 2010 |
| Cost of service | \$707 | \$866 | \$1,203 | \$1,463 |
| Selling and marketing expense | 261 | 1,831 | 308 | 2,937 |
| General and administrative expense | 5,978 | 8,019 | 9,014 | 13,481 |
| Share-based compensation expense | \$6,946 | \$10,716 | \$10,525 | \$17,881 |
| Share-based compensation expense per share: | | | | |
| Basic | \$0.09 | \$0.14 | \$0.14 | \$0.24 |
| Diluted | \$0.09 | \$0.14 | \$0.14 | \$0.24 |

On July 28, 2011, at the Company's 2011 Annual Meeting of Stockholders (the "Annual Meeting"), the Company's stockholders approved a stock option exchange program, pursuant to which the Company would exchange eligible outstanding stock options granted under the Company's 2004 Stock Option, Restricted Stock and Deferred Stock Unit Plan (the "2004 Stock Plan") and the Company's 2009 Employment Inducement Equity Incentive Plan for a lesser number of replacement options to be granted under the 2004 Stock Plan, with an exercise price equal to the closing price of Leap common stock on the date of the replacement grant. The exchange ratios that would determine how many replacement options are granted would be determined on a grant-by-grant basis and are intended to result in the fair value, for accounting purposes, of the replacement options being approximately 50% of the fair value of the surrendered options using the Black-Scholes stock option pricing model. The exchange program would be open only to eligible employees of Cricket. Executive officers and members of the Company's board of directors would not be permitted to participate in the exchange.

Note 7. Comprehensive Loss

Comprehensive loss consisted of the following (in thousands):

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|--------------------------------|------------|------------------------------|-------------|
| | 2011 | 2010 | 2011 | 2010 |
| Net loss | \$(58,442) | \$(19,288) | \$(144,882) | \$(84,735) |
| Other comprehensive loss: | | | | |
| Net unrealized holding gains (losses) on investments, net of tax | — | (1,452) | 9 | (1,707) |
| Comprehensive loss | \$(58,442) | \$(20,740) | \$(144,873) | \$(86,442) |

Note 8. Basic and Diluted Earnings (Loss) Per Share

Basic earnings (loss) per share is computed by dividing net income (loss) attributable to common stockholders by the weighted-average number of common shares outstanding during the period. Diluted earnings per share is computed by dividing net income attributable to common stockholders by the sum of the weighted-average number of common shares outstanding during the period and the weighted-average number of dilutive common share equivalents outstanding during the period, using the treasury stock method and the if-converted method, where applicable. Dilutive common share equivalents are comprised of stock options, restricted stock awards, employee stock purchase rights and convertible senior notes. Since the Company incurred losses for the three and six months ended June 30, 2011 and 2010, 9.0 million and 9.7 million common share equivalents were excluded in the computation of diluted loss per share, for the three and six months ended June 30, 2011 and 2010, respectively.

Note 9. Significant Acquisitions and Other Transactions

STX Wireless Joint Venture

Cricket service is offered in South Texas by the Company's joint venture STX Operations. Cricket controls STX Operations through a 75.75% controlling membership interest in its parent company STX Wireless. On October 1, 2010, the Company and Pocket contributed substantially all of their respective wireless spectrum and operating assets in the South Texas region to STX Wireless to create a joint venture to provide Cricket service in the South Texas region. In exchange for such contributions, Cricket received a 75.75% controlling membership interest in STX Wireless and Pocket received a 24.25% non-controlling membership interest. Additionally, in connection with the transaction, the Company made payments to Pocket of approximately \$40.7 million in cash.

The joint venture strengthens the Company's presence and competitive positioning in the South Texas region. Commencing October 1, 2010, STX Operations began providing Cricket service to approximately 700,000 customers, of which approximately 323,000 were contributed by Pocket, with a network footprint covering approximately 4.4 million POPs.

The Company accounted for the acquisition of Pocket's business as a business purchase combination in accordance with the authoritative guidance for business combinations, with the Company as the acquirer. The consideration provided to Pocket, in exchange for Pocket's business, was as follows (in thousands):

| | |
|--|-----------|
| Cash | \$40,730 |
| Fair value of Cricket's business contributed to STX Wireless at 24.25% | 65,793 |
| Fair value of Pocket business contributed to STX Wireless at 24.25% | 34,101 |
| Total consideration | \$140,624 |

The fair values of the contributions to STX Wireless were determined using internally developed discounted cash flow models corroborated by third party valuation firms.

The consideration was allocated to the net tangible and intangible assets acquired and liabilities assumed by STX Wireless based on their fair values as of October 1, 2010. The excess of the purchase price over the fair values of the net assets acquired was recorded as goodwill. While the Company does not anticipate significant changes to the purchase price allocation, certain post-closing purchase price adjustments have not yet been finalized, and therefore are preliminary and subject to change.

The following amounts represent the preliminary fair value of identifiable assets acquired and liabilities assumed by the Company as of the acquisition date (in thousands):

| | Fair Value |
|--|------------|
| Assets: | |
| Inventories | \$2,331 |
| Other current assets | 1,204 |
| Property and equipment | 41,971 |
| Wireless licenses | 33,716 |
| Customer relationships | 50,435 |
| Goodwill | 31,094 |
| Total Assets | 160,751 |
| Liabilities: | |
| Accounts payable and accrued liabilities | \$4,020 |
| Deferred revenue | 4,224 |
| Deferred tax liability | 10,693 |
| Other long-term liabilities | 1,190 |
| Total liabilities | 20,127 |
| Total net assets acquired | \$140,624 |

Goodwill primarily represents the future economic benefits arising from other assets acquired that could not be individually identified and separately recognized. The goodwill arising from the transaction consisted largely of the synergies expected from the joint venture. As part of the valuation, the Company recorded approximately \$50.4 million of finite-lived intangible assets, representing the fair value of customer relationships, which are amortized on an accelerated basis over an estimated useful life of 4 years. Additionally, the Company recorded approximately \$33.7 million of wireless licenses acquired in the transaction. Consistent with the Company's policy regarding the useful lives of its wireless licenses, the wireless licenses acquired have an indefinite useful life.

The Company has not presented pro forma financial information reflecting the effects of the transaction because such effects are not material.

Pocket's 24.25% non-controlling membership interest in STX Wireless was recorded in mezzanine equity as a component of redeemable non-controlling interests. The non-controlling interest was initially recognized as part of the purchase accounting in the amount of \$51.5 million. The \$51.5 million amount comprised the sum of Pocket's proportionate share (24.25%) of the fair value in the business contributed to the joint venture by Pocket plus its proportionate share (24.25%) of the net equity of the business contributed by Cricket.

The joint venture is controlled and managed by Cricket under the terms of the amended and restated limited liability company agreement (the "STX LLC Agreement"). Under the STX LLC Agreement, Pocket has the right to put, and the Company has the right to call, all of Pocket's membership interests in STX Wireless, which rights are generally exercisable on or after April 1, 2014. In addition, in the event of a change of control of Leap, Pocket is obligated to sell to the Company all of its membership interests in STX Wireless. The purchase price for Pocket's membership interests would be equal to 24.25% of the product of Leap's enterprise value-to-revenue multiple for the four most recently completed fiscal quarters multiplied by the total revenues of STX Wireless and its subsidiaries over that same period. The purchase price is payable in either cash, Leap common stock or a combination thereof, as determined by Cricket in its discretion (provided that, if permitted by Cricket's debt instruments, at least \$25 million of the purchase price must be paid in cash). The Company has the right to deduct from or set off against the purchase price certain distributions made to Pocket, as well as any obligations owed to the Company by Pocket. Under the STX LLC

Agreement, Cricket is permitted to purchase Pocket's membership interests in STX Wireless over multiple closings in the event that the block of shares of Leap common stock issuable to Pocket at the closing of the purchase would be greater than 9.9% of the total number of shares of Leap common stock then issued and outstanding. To the extent the redemption price for Pocket's non-controlling membership interest varies from the value of Pocket's net interest in STX Wireless at any period (after the attribution of profits or losses), the value of such interest is accreted to the redemption price for such interest with a corresponding adjustment to additional paid-in capital. For the six months ended June 30, 2011 and for the year ended December 31, 2010, the Company recorded accretion charges of \$14.3 million and \$48.1 million, respectively, to bring the carrying value of Pocket's membership interests in STX

Wireless to its estimated redemption values of \$113.8 million and \$99.5 million, respectively. Additionally, and in accordance with the STX LLC Agreement, STX Wireless made pro-rata distributions of \$5.7 million and \$1.7 million to Cricket and Pocket, respectively, in consideration for their estimated tax liabilities resulting from STX Wireless' earnings for the six months ended June 30, 2011. The Company recorded the distribution to Pocket as an adjustment to additional paid-in-capital in the condensed consolidated balance sheets and as a component of accretion of redeemable non-controlling interests and distributions, net of tax, in the condensed consolidated statements of operations. The distribution made to Cricket was eliminated in consolidation.

At the closing of the formation of the joint venture, STX Wireless entered into a loan and security agreement with Pocket pursuant to which, commencing in April 2012, STX Wireless agreed to make quarterly limited-recourse loans to Pocket out of excess cash in an aggregate principal amount not to exceed \$30 million, which loans are secured by Pocket's membership interests in STX Wireless. Such loans will bear interest at 8.0% per annum, compounded annually, and will mature on the earlier of October 2020 and the date on which Pocket ceases to hold any membership interests in STX Wireless. Cricket has the right to set off all outstanding principal and interest under this loan and security agreement against the payment of the purchase price for Pocket's membership interests in STX Wireless in the event of a put, call or mandatory buyout following a change of control of Leap.

The Company is integrating the Cricket and Pocket operating assets in the South Texas region so that the combined network and retail operations of the STX Wireless joint venture will operate more efficiently. This integration is expected to occur throughout the remainder of 2011 and the Company expects to incur additional integration costs during this period. These estimated additional costs are expected to relate primarily to the termination or abandonment of certain leased cell site locations. During the three and six months ended June 30, 2011, the Company incurred approximately \$631,000 of such integration costs, which were recorded in impairments and other charges within the Company's condensed consolidated statements of operations.

In a separate transaction, on January 3, 2011, the Company acquired Pocket's customer assistance call center for \$850,000. The Company accounted for this transaction as a business purchase combination in accordance with the authoritative guidance for business combinations. A portion of the purchase price was assigned to property and equipment and the remaining amount was allocated to goodwill.

Savary Island Venture

Cricket owns an 85% non-controlling membership interest in Savary Island, which holds wireless spectrum in the upper Midwest portion of the U.S. and which leases a portion of that spectrum to Cricket. On December 27, 2010, immediately prior to Cricket's purchase of the remaining 17.5% controlling membership interest in Denali that it did not previously own, Denali contributed all of its wireless spectrum outside of the Chicago and Southern Wisconsin operating markets and a related spectrum lease to Savary Island, a newly formed venture, in exchange for an 85% non-controlling membership interest. Savary Island acquired this spectrum as a "very small business" designated entity under FCC regulations. Ring Island Wireless, LLC ("Ring Island") contributed \$5.1 million of cash to Savary Island in exchange for a 15% controlling membership interest. On March 31, 2011, Denali and its subsidiaries were merged with and into Cricket, with Cricket as the surviving entity.

Under the amended and restated limited liability company agreement of Savary Island (the "Savary Island LLC Agreement"), Ring Island has the right to put its entire controlling membership interest in Savary Island to Cricket during the 30-day period commencing on the earlier to occur of May 1, 2012 (based on current FCC rules) and the date of a sale of all or substantially all of the assets, or the liquidation, of Savary Island, and during any 30-day period commencing after a breach by Cricket of its obligation to pay spectrum lease fees or fund working capital loans under the Savary Island Credit Agreement (see below) which breach has continued for 120 days after written notice of breach. The purchase price for such sale is an amount equal to Ring Island's equity contributions to Savary Island less

any optional distributions made pursuant to the Savary Island LLC Agreement, plus \$150,000 if the sale is consummated prior to May 1, 2017 without incurring any unjust enrichment payments. If the put option is exercised, the consummation of the sale will be subject to FCC approval. The Company has recorded this obligation to purchase Ring Island's controlling membership interest in Savary Island as a component of redeemable non-controlling interest in the consolidated balance sheets. Savary Island has guaranteed Cricket's put obligations under the Savary Island LLC Agreement, which guaranty is secured on a first-lien basis by certain assets of Savary Island. Under the Savary Island LLC Agreement, Savary Island is also required to make monthly mandatory distributions to Ring Island. Savary Island is also party to a management services agreement with Cricket, pursuant to which Cricket provides management services to Savary Island in exchange for a management fee.

The Company attributes profits and losses to Ring Island's redeemable non-controlling interests each reporting period. To the extent that the redemption price for Ring Island's controlling membership interest exceeds the value of Ring Island's net interest in Savary Island at any period (after the attribution of profits or losses), the value of such interest is accreted to the redemption price for such interest with a corresponding adjustment to additional paid-in capital. However, the Company would not reduce the carrying amount of the redeemable non-controlling interest below the redemption price. Both the attribution of profit or loss

and the accretion of the redeemable non-controlling interest are presented as a component of accretion of redeemable non-controlling interests and distributions, net of tax, in the condensed consolidated statements of operations. As of June 30, 2011 and December 31, 2010, this redeemable non-controlling interest had a carrying value of \$5.3 million.

At the closing of the formation of the venture, Savary Island assumed \$211.6 million of the outstanding loans then owed by Denali and its subsidiaries to Cricket. In connection with Savary Island's assumption of such loans, Cricket, Savary Island and Savary Island's subsidiaries entered into an amended and restated senior secured credit agreement, dated as of December 27, 2010 (the "Savary Island Credit Agreement") to amend and restate the terms of the Denali senior secured credit agreement applicable to the assumed loans. Under the Savary Island Credit Agreement, Cricket also agreed to loan Savary Island up to an additional \$5.0 million to fund its working capital needs. As of June 30, 2011 and December 31, 2010, borrowings under the Savary Island Credit Agreement totaled \$211.6 million. Loans under the Savary Island Credit Agreement (including the assumed loans) accrue interest at the rate of 9.5% per annum and such interest is added to principal annually. All outstanding principal and accrued interest is due in May 2021. Outstanding principal and accrued interest are due in quarterly installments commencing May 2018. However, if Ring Island exercises its put under the Savary Island LLC Agreement prior to such date, then the amortization commencement date under the Savary Island Credit Agreement will be the later of the amortization commencement date and the put closing date. Savary Island may prepay loans under the Savary Island Credit Agreement at any time without premium or penalty. The obligations of Savary Island and its subsidiaries under the Savary Island Credit Agreement are secured by all of the personal property, fixtures and owned real property of Savary Island and its subsidiaries, subject to certain permitted liens. The Savary Island Credit Agreement and the related security agreements contain customary representations, warranties, covenants and conditions.

Other Transactions

On May 4, 2011, the Company and Savary Island entered into license exchange agreements with T-Mobile and its affiliates in which Cricket and Savary Island have agreed to assign 10 MHz of unused wireless spectrum in Indianapolis, IN, Minneapolis, MN and Syracuse, NY to T-Mobile and its affiliates. In exchange, Cricket will receive 10 MHz of additional wireless spectrum in seven existing Cricket markets in Texas, Colorado, Oklahoma and New Mexico and will cancel a portion of the indebtedness owed by Savary Island to Cricket. The Company and Savary Island have also entered into spectrum lease arrangements with T-Mobile and its affiliates for the interim lease of the spectrum subject to the exchange for the period until the closing. Completion of the license exchange is subject to customary closing conditions, including the consent of the FCC. The wireless licenses to be transferred to T-Mobile under the license exchange agreements have been classified in assets held for sale at their carrying value of \$27.7 million in the condensed consolidated balance sheet as of June 30, 2011.

On February 11, 2011, the Company entered into an agreement with Global Tower, LLC ("GTP") to sell certain of the Company's telecommunications tower assets in one or more closings. During the second quarter, the Company sold the substantial majority of those telecommunications towers and related assets in exchange for approximately \$23.9 million in cash. The transaction was structured as a sale lease-back financing, in which the Company entered into a 10-year lease agreement with GTP to continue the Company's commercial use of the towers.

On June 30, 2011, one of the Company's equity method investees declared a cash dividend and paid the dividend with funds borrowed under a third-party line of credit. The Company's share of the dividend based on its ownership percentage was \$18.2 million. The dividend was recorded as a receivable in other current assets and as a reduction of the carrying value of the Company's investment in the equity method investee recorded in other assets in the condensed consolidated balance sheet as of June 30, 2011. The dividend was received in full on July 1, 2011.

Note 10. Arrangements with Variable Interest Entities and Joint Ventures

As described in Note 2, the Company consolidates its non-controlling membership interest in Savary Island in accordance with the authoritative guidance for the consolidation of variable interest entities because Savary Island is a variable interest entity and the Company has entered into an agreement with Savary Island's other member which establishes a specified purchase price in the event that Ring Island exercises its right to sell its membership interest to the Company. Also, as described in Note 2, the Company consolidates its controlling membership interest in STX Wireless in accordance with the authoritative guidance for consolidations based on the voting interest model. All intercompany accounts and transactions have been eliminated in the condensed consolidated financial statements.

The aggregate carrying amount and classification of the significant assets of Savary Island, excluding intercompany accounts and transactions, as of June 30, 2011 and December 31, 2010 are presented in the following table below (in thousands). There were no liabilities (other than intercompany liabilities) of Savary Island as of June 30, 2011 and December 31, 2010:

| | June 30, 2011 | December 31, 2010 |
|---------------------------|------------------|----------------------|
| Assets | | |
| Cash and cash equivalents | \$8,308 | \$5,250 |
| Wireless licenses | 129,754 | 156,055 |
| Assets held for sale (1) | \$26,301 | \$— |
| Total Assets | \$164,363 | \$161,305 |

(1) Represents the carrying value of wireless licenses to be assigned and transferred to T-Mobile and its affiliates at the closing under the license exchange agreement discussed in Note 9, "Significant Acquisitions and Other Transactions."

The following table provides a summary of the changes in value of the Company's redeemable non-controlling interests (in thousands):

| | Six Months Ended June 30, 2011 | 2010 |
|---|-----------------------------------|----------|
| Beginning balance, January 1 | \$104,788 | \$71,632 |
| Purchase of membership units in LCW Wireless (1) | — | (20,973) |
| Accretion of redeemable non-controlling interests, before tax | 14,796 | 2,503 |
| Other | (524) |) — |
| Ending balance, June 30 | \$119,060 | \$53,162 |

(1) On March 30, 2010, Cricket acquired an additional 23.9% membership interest in LCW Wireless, LLC ("LCW Wireless") from CSM Wireless, LLC ("CSM") following CSM's exercise of its option to sell its interest in LCW Wireless to Cricket for \$21.0 million, which increased Cricket's non-controlling membership interest in LCW Wireless to 94.6%. Cricket subsequently acquired the remaining membership interests in LCW Wireless in August 2010, and LCW Wireless merged with and into Cricket in February 2011, with Cricket as the surviving entity.

Note 11. Income Taxes

The computation of the Company's annual effective tax rate includes a forecast of the Company's estimated "ordinary" income (loss), which is its annual income (loss) from continuing operations before tax, excluding unusual or infrequently occurring (discrete) items. Significant management judgment is required in projecting the Company's ordinary income (loss). The Company's projected ordinary income tax expense for the full year 2011 consists primarily of the deferred tax effect of the Company's investments in joint ventures that are in a deferred tax liability position and the amortization of wireless licenses for income tax purposes. Because the Company's projected 2011 income tax expense is a relatively fixed amount, a small change in the ordinary income (loss) projection can produce a significant variance in the effective tax rate, therefore making it difficult to determine a reliable estimate of the annual effective tax rate. As a result, and in accordance with the authoritative guidance for accounting for income taxes in interim periods, the Company has computed its provision for income taxes as of and for the three and six months ended June 30, 2011 and 2010 by applying the actual effective tax rate to the year-to-date income (loss).

The Company periodically assesses the likelihood that its deferred tax assets will be recoverable from future taxable income. Deferred tax liabilities associated with wireless licenses and investments in certain joint ventures cannot be considered a source of taxable income to support the realization of deferred tax assets because these deferred tax liabilities will not reverse until some indefinite future period when these assets are either sold or impaired for book purposes. To the extent the Company believes it is more likely than not that its deferred tax assets will not be recovered, it must establish a valuation allowance. As part of this periodic assessment for the three and six months ended June 30, 2011, the Company weighed the positive and negative factors and, at this time, does not believe there is sufficient positive evidence to support a conclusion that it is more likely than not that all or a portion of its deferred tax assets will be realized, except with respect to the realization of a \$2.0 million Texas Margins Tax ("TMT") credit. Accordingly, at June 30, 2011 and December 31, 2010, the Company recorded a valuation allowance offsetting

substantially all of its net deferred tax assets.

The Company has substantial federal and state net operating losses ("NOLs") for income tax purposes. Subject to certain requirements, the Company may "carry forward" its federal NOLs for up to 20 years to offset future taxable income and reduce its income tax liability. For state income tax purposes, the NOL carryforward period ranges from five to 20 years. As of June 30, 2011, the Company had federal and state NOLs of approximately \$2.3 billion which begin to expire in 2022 for federal income tax purposes and of which \$0.3 million will expire at the end of 2011 for state income tax purposes. While these NOL carryforwards have a potential to be used to offset future ordinary taxable income and reduce future cash tax liabilities by approximately \$876.5 million, the Company's ability to utilize these NOLs will depend upon the availability of future taxable income during the carryforward period and, as such, there is no assurance the Company will be able to realize such tax savings.

The Company's ability to utilize NOLs could be further limited if it were to experience an "ownership change," as defined in Section 382 of the Internal Revenue Code and similar state provisions. In general terms, a change in ownership can occur whenever there is a cumulative shift in the ownership of a company by more than 50 percentage points by one or more "5% stockholders" within a three-year period. The occurrence of such a change in the Company's ownership would limit the amount of NOL carryforwards it could utilize in a given year. This limitation would accelerate cash tax payments the Company would be required to make and likely result in a substantial portion of its NOLs expiring before the Company could fully utilize them.

On September 13, 2010, the Company's board of directors adopted a Tax Benefit Preservation Plan to help deter acquisitions of Leap common stock that could result in an ownership change under Section 382 and thus help preserve the Company's ability to use its NOL carryforwards. The Tax Benefit Preservation Plan was designed to deter acquisitions of Leap common stock that would result in a stockholder owning 4.99% or more of Leap common stock (as calculated under Section 382), or any existing holder of 4.99% or more of Leap common stock acquiring additional shares, by substantially diluting the ownership interest of any such stockholder unless the stockholder obtained an exemption from the Company's board of directors. Following the implementation of the Tax Benefit Preservation Plan, the Company's board of directors continued to review changes in the Company's cumulative shift in ownership for purposes of Section 382 to determine what effect they may have on the Company's ability to use its NOL carryforwards. On June 16, 2011, the Company's board of directors reviewed the Company's cumulative shift in ownership, which had decreased to approximately 29% as a result of the application of Section 382 and its three-year look-back period, and determined that the Tax Benefit Preservation Plan was no longer necessary to protect the value of the NOL carryforwards. As a result, the Tax Benefit Preservation Plan was terminated, effective June 21, 2011.

The Company's unrecognized income tax benefits and uncertain tax positions, as well as any associated interest and penalties, are recorded through income tax expense; however, such amounts have not been significant in any period.

Note 12. Commitments and Contingencies

As more fully described below, the Company is involved in a variety of lawsuits, claims, investigations and proceedings concerning intellectual property, commercial, business practices and other matters. Due in part to the growth and expansion of its business operations, the Company has become subject to increased amounts of litigation, including disputes alleging intellectual property infringement.

The Company believes that any damage amounts alleged by plaintiffs in the matters discussed below are not necessarily meaningful indicators of its potential liability. The Company determines whether it should accrue an estimated loss for a contingency in a particular legal proceeding by assessing whether a loss is deemed probable and whether the amount can be reasonably estimated. The Company reassesses its views on estimated losses on a quarterly basis to reflect the impact of any developments in the matters in which it is involved.

Legal proceedings are inherently unpredictable, and the matters in which the Company is involved often present complex legal and factual issues. The Company vigorously pursues defenses in legal proceedings and engages in discussions where possible to resolve these matters on favorable terms. The Company's policy is to recognize legal costs as incurred. It is possible, however, that the Company's business, financial condition and results of operations in future periods could be materially adversely affected by increased litigation expense, significant settlement costs and/or unfavorable damage awards.

Patent Litigation

DNT

On May 1, 2009, the Company was sued by DNT LLC ("DNT") in the United States District Court for the Eastern District of Virginia, Richmond Division, for alleged infringement of U.S. Reissued Patent No. RE37,660 entitled "Automatic Dialing

System.” DNT alleges that the Company uses, encourages the use of, sells, offers for sale and/or imports voice and data service and wireless modem cards for computers designed to be used in conjunction with cellular networks and that such acts constitute both direct and indirect infringement of DNT's patent. DNT alleges that the Company's infringement is willful, and the complaint seeks an injunction against further infringement, unspecified damages (including enhanced damages) and attorneys' fees. On July 23, 2009, the Company filed an answer to the complaint as well as counterclaims. On December 14, 2009, DNT's patent was determined to be invalid in a case it brought against other wireless providers. DNT's lawsuit against the Company has been stayed, pending resolution of that other case.

Digital Technology Licensing

On April 21, 2009, the Company and certain other wireless carriers (including Hargray Wireless LLC ("Hargray Wireless"), a company which Cricket acquired in April 2008 and which was merged with and into Cricket in December 2008) were sued by Digital Technology Licensing LLC ("DTL") in the United States District Court for the Southern District of New York, for alleged infringement of U.S. Patent No. 5,051,799 entitled "Digital Output Transducer." DTL alleges that the Company and Hargray Wireless sell and/or offer to sell Bluetooth® devices or digital cellular telephones, including Kyocera and Sanyo telephones, and that such acts constitute direct and/or indirect infringement of DTL's patent. DTL further alleges that the Company and Hargray Wireless directly and/or indirectly infringe its patent by providing cellular telephone service and by using and inducing others to use a patented digital cellular telephone system by using cellular telephones, Bluetooth devices, and cellular telephone infrastructure made by companies such as Kyocera and Sanyo. DTL alleges that the asserted infringement is willful, and the complaint seeks a permanent injunction against further infringement, unspecified damages (including enhanced damages), attorneys' fees, and expenses. On January 5, 2010, this matter was stayed, pending final resolution of another case that DTL brought against another wireless provider in which it alleged infringement of the patent that is at issue in this matter. That other case has been settled and dismissed but the stay in the Company's matter has not been lifted.

Department of Justice Inquiry

On January 7, 2009, the Company received a letter from the Civil Division of the United States Department of Justice (the "DOJ"). In its letter, the DOJ alleges that between approximately 2002 and 2006, the Company failed to comply with certain federal postal regulations that required it to update customer mailing addresses in exchange for receiving certain bulk mailing rate discounts. As a result, the DOJ has asserted that the Company violated the False Claims Act (the "FCA") and is therefore liable for damages. On November 18, 2009, the DOJ presented the Company with a calculation that single damages in this matter were \$2.7 million for the period from June 2003 through June 2006, which amount may be trebled under the FCA. The FCA also provides for statutory penalties, which the DOJ has previously asserted could total up to \$11,000 per mailing. The DOJ had also previously asserted as an alternative theory of liability that the Company is liable on a basis of unjust enrichment for estimated single damages. The Company is currently in discussions with the DOJ to settle this matter.

Pentwater Capital Management

On July 26, 2011, the Company entered into an agreement with Pentwater Capital Management LP and certain of its affiliates (collectively, "Pentwater"), to settle an action brought by Pentwater in the Delaware Court of Chancery on June 20, 2011. The action related to a notice of nominations, dated March 10, 2011, by which Pentwater purported to nominate three directors for election at the Company's Annual Meeting, which was held on July 28, 2011. The Company advised Pentwater that the notice they delivered was not in proper form because it did not comply with provisions of the Company's bylaws and that as a result any shares voted with respect to any nominees of Pentwater would not be counted for the purpose of determining the election of directors at the Annual Meeting. Pentwater's complaint sought a declaration that Article II, Section 8(a)(2)(D)(iv) of the Company's Amended and Restated Bylaws was invalid under Delaware law. Pentwater also alleged that members of the Company's board of directors breached

their fiduciary duties by adopting revisions to the advance notice provisions in the Company's Amended and Restated Bylaws on December 2, 2010. Under the terms of the settlement, Pentwater agreed to irrevocably withdraw their notice of intention to nominate directors for election and to dismiss the action with prejudice. Pentwater also agreed to vote all shares of Leap stock they held on the record date in favor of each of the directors nominated by the Company's board of directors at the Annual Meeting. Under the terms of the settlement, the Company increased the size of Leap's board to nine directors, appointed Robert E. Switz and Richard R. Roscitt as directors and appointed Mr. Roscitt to the Nominating and Corporate Governance Committee and to the Compensation Committee. The action was dismissed on August 2, 2011.

Other Litigation, Claims and Disputes

In addition to the matters described above, the Company is often involved in certain other matters, which generally arise in the ordinary course of business and seek monetary damages and other relief. Based upon information currently available to the

Company, none of these other matters is expected to have a material adverse effect on the Company's business, financial condition or results of operations.

Wholesale Agreement

On August 2, 2010, the Company entered into a wholesale agreement with an affiliate of Sprint Nextel which permits the Company to offer Cricket wireless services outside the Company's current network footprint using Sprint's network. The Company and Sprint amended the agreement in July 2011 to, among other things, revise the amount of the annual minimum revenue commitments for the years 2011 and 2013.

The initial term of the wholesale agreement runs until December 31, 2015, and automatically renews for successive one-year periods unless either party provides 180-day advance notice to the other. Under the agreement, the Company will pay Sprint a specified amount per month for each subscriber activated on its network, subject to periodic market-based adjustments. The Company has agreed to provide Sprint with a minimum of \$300 million of revenue under the agreement, as amended, over the initial five-year term (against which the Company can credit up to \$100 million of service revenue under other existing commercial arrangements between the companies), with a minimum of \$20 million of revenue to be provided in 2011, a minimum of \$75 million of revenue to be provided in 2012, a minimum of \$80 million of revenue to be provided in 2013, a minimum of \$75 million of revenue to be provided in 2014 and a minimum of \$50 million of revenue to be provided in 2015. Any revenue provided by the Company in a given year above the minimum revenue commitment for that particular year will be credited to the next succeeding year. However, to the extent the Company's revenues were to fall beneath the applicable commitment amount for any given year, excess revenues from a subsequent year could not be carried back to offset such shortfall.

In addition, in the event Leap is involved in a change-of-control transaction with another facilities-based wireless carrier with annual revenues of at least \$500 million in the fiscal year preceding the date of the change of control agreement (other than MetroPCS Communications, Inc. ("MetroPCS")), either the Company (or the Company's successor in interest) or Sprint may terminate the wholesale agreement within 60 days following the closing of such a transaction. In connection with any such termination, the Company (or its successor in interest) would be required to pay to Sprint a specified percentage of the remaining aggregate minimum revenue commitment, with the percentage to be paid depending on the year in which the change of control agreement was entered into, beginning at 40% for any such agreement entered into in 2011, 30% for any such agreement entered into in 2012, 20% for any such agreement entered into in 2013 and 10% for any such agreement entered into in 2014 or 2015.

In the event that Leap is involved in a change-of-control transaction with MetroPCS during the term of the wholesale agreement, then the agreement would continue in full force and effect, subject to certain revisions, including, without limitation, an increase to the total minimum revenue commitment to \$350 million, taking into account any revenue contributed by Cricket prior to the date thereof.

In the event Sprint is involved in a change-of-control transaction, the agreement would bind Sprint's successor-in-interest.

Device Purchase Agreements

The Company has entered into agreements with various suppliers for the purchase of wireless devices. These agreements require the Company to purchase specified quantities of devices based on minimum commitment levels through July 2012. The total aggregate commitments outstanding under these agreements were approximately \$222.8 million and \$218.2 million as of June 30, 2011 and December 31, 2010, respectively.

Note 13. Guarantor Financial Information

The \$3,000 million of senior notes issued by Cricket (the “Issuing Subsidiary”) are comprised of \$300 million of unsecured senior notes due 2015, \$1,100 million of senior secured notes due 2016 and \$1,600 million of unsecured senior notes due 2020. The notes are jointly and severally guaranteed on a full and unconditional basis by Leap (the “Guarantor Parent Company”) and Cricket License Company, LLC, a wholly-owned subsidiary of Cricket (the “Guarantor Subsidiary”).

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

Condensed consolidating financial information of the Guarantor Parent Company, the Issuing Subsidiary, the Guarantor Subsidiary, Non-Guarantor Subsidiaries and total consolidated Leap and subsidiaries as of June 30, 2011 and December 31, 2010 and for the three and six months ended June 30, 2011 and 2010 is presented below. The equity method of accounting is used to account for ownership interests in subsidiaries, where applicable.

At December 31, 2010, LCW Wireless and Denali and their respective subsidiaries were wholly owned subsidiaries of the Issuing Subsidiary and reported as Non-Guarantor Subsidiaries in the condensed consolidating financial statements. LCW Wireless and Denali and their respective subsidiaries were merged with and into the Issuing Subsidiary on February 28, 2011 and March 31, 2011, respectively. As a result of these transactions, the financial position, results of operations and cash flows of these entities have been consolidated into the Issuing Subsidiary. All prior period consolidating financial statements have been revised to reflect this reorganization.

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Condensed Consolidating Balance Sheet as of June 30, 2011 (unaudited and in thousands):

| | Guarantor Parent Company | Issuing Subsidiary | Guarantor Subsidiary | Non-Guarantor Subsidiaries | Consolidating and Eliminating Adjustments | Consolidated |
|---------------------------|--------------------------------|-----------------------|-------------------------|-------------------------------|--|--------------|
| Assets | | | | | | |
| Cash and cash equivalents | \$42 | \$447,575 | \$— | \$ 60,502 | \$— | \$ 508,119 |
| Short-term investments | — | 215,895 | — | — | — | 215,895 |
| Inventories | — | 94,250 | — | 6,772 | — | 101,022 |
| Deferred charges | — | 46,196 | — | 37 | — | 46,233 |
| Other current assets | 2,129 | 136,345 | — | 1,646 | (2,148) | 137,972 |
| Total current assets | 2,171 | 940,261 | — | 68,957 | (2,148) | |