LEAP WIRELESS INTERNATIONAL INC
Form 10-K
April 15, 2003

Table of Contents

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

FOR ANNUAL AND TRANSITION REPORTS

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

(Mark One)

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

For the fiscal year ended December 31, 2002

OR

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

For the transition period from __________ to __________ .

Commission file number 0-29752

LEAP WIRELESS INTERNATIONAL, INC.

(Exact Name of Registrant as Specified in its Charter)

Delaware **(State or Other Jurisdiction of Incorporation or Organization)**	**33-0811062** **(I.R.S. Employer Identification No.)**
10307 Pacific Center Court, San Diego, CA **(Address of Principal Executive Offices)**	**92121** **(Zip Code)**

(858) 882-6000

(Registrant s Telephone Number, Including Area Code)

Securities registered pursuant to Section 12(b) of the Act:

None.

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, $.0001 par value

(Title of Class)

Preferred Stock Purchase Rights

(Title of Class)

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 twelve 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 x NO o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). YES o NO x

The aggregate market value of common stock held by non-affiliates of the registrant as of June 28, 2002 was approximately $40.6 million.

As of April 10, 2003, the aggregate market value of the registrant s voting stock held by non-affiliates of the registrant was approximately $6.2 million, based on the closing price of Leap s Common Stock on the OTC Bulletin Board on April 10, 2003, of $0.17 per share.

As of April 10, 2003, 58,704,192 shares of the registrant s Common Stock, $.0001 par value per share, were outstanding.

TABLE OF CONTENTS

Table of Contents

LEAP WIRELESS INTERNATIONAL, INC.

ANNUAL REPORT ON FORM 10-K

For the Year Ended December 31, 2002

TABLE OF CONTENTS

Table of Contents

PART I

As used in this report, the terms we, our, ours and us refer to Leap Wireless, Inc. and its subsidiaries, unless the context suggests otherwise. Leap refers to Leap Wireless International, Inc. Cricket refers to Cricket Communications, Inc. Cricket and the subsidiaries of Cricket and Leap that hold assets that are used in the Cricket business or that hold assets pledged as security under Cricket s senior secured vendor credit facilities are collectively referred to herein as the Cricket companies. Unless otherwise specified, information relating to population and potential customers, or POPs, is based on 2002 population estimates provided by Claritas Inc.

Forward-Looking Statements; Cautionary Statement

Except for the historical information contained herein, this document contains forward-looking statements reflecting management s current forecast of certain aspects of Leap s future. These forward-looking statements are subject to a number of risks, uncertainties and assumptions about Leap, including, among other things:

our ability to cause a Chapter 11 plan of reorganization to be finalized and to be confirmed by the Bankruptcy Court, and our ability to successfully implement the plan;

our ability to continue as a going concern;

our ability to obtain Bankruptcy Court approval with respect to motions prosecuted by us in our Chapter 11 cases from time to time;

risks associated with third parties seeking and obtaining Bankruptcy Court approval to terminate or shorten the exclusivity period for Leap, Cricket and substantially all of their subsidiaries to propose and confirm one or more plans of reorganization, for the appointment of a Chapter 11 trustee or to convert the Chapter 11 cases of Leap, Cricket and substantially all of their subsidiaries to Chapter 7 cases;

our ability to obtain and maintain normal terms with vendors and service providers;

our ability to maintain contracts that are critical to our operations;

the potential adverse impacts of the Chapter 11 cases on the liquidity or results of operations of Leap and Cricket;

our ability to attract, motivate and/or retain key executives and other employees;

our ability to attract and retain customers;

the unsettled nature of the wireless market, the current economic slowdown, service offerings of increasingly large bundles of minutes of use at increasingly low prices by some major carriers, other issues facing the telecommunications industry in general, and our announcement of restructuring discussions, and our subsequent Chapter 11 filing, which have created a level of uncertainty that adversely affects our ability to predict future customer growth, as well as other key operating metrics;

changes in economic conditions that could adversely affect the market for wireless services;

the acceptance of our product offering by our prospective customers;

the effects of actions beyond our control in our distribution network;

rulings by courts or the Federal Communications Commission (FCC) adversely affecting our rights to own and/or operate certain wireless licenses, or changes in our ownership that could adversely affect our status as an entrepreneur under FCC rules and regulations;

our ability to maintain our cost, market penetration and pricing structure in the face of competition;

failure of network systems to perform according to expectations;

the effects of competition;

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

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

You can identify these forward-looking statements by forward-looking words such as believe, may, could, will, estimate, continue, anticipate, intend, seek, plan, expect, should, would and similar expressions in this report.

We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. In light of these risks and uncertainties, the forward-looking events and circumstances discussed in this report may not occur and actual results could differ materially from those anticipated or implied in the forward-looking statements.

Item 1. ***Business***

Company Overview

Leap conducts operations through its subsidiaries. Leap has no independent operations or sources of operating revenue other than through dividends, if any, from its operating subsidiaries. Cricket Communications, Inc. is Leap s subsidiary that operates the Cricket business, together with subsidiaries of Cricket and Leap that hold assets that are used in the Cricket business or that hold assets pledged as security under Cricket s senior secured vendor credit facilities. The Cricket companies operate together as a wireless communications carrier that provides innovative, affordable, simple wireless services designed to accelerate the transformation of wireless service into a mass consumer product.

Proceedings Under Chapter 11 of the Bankruptcy Code

On April 13, 2003 (the Petition Date), Leap, Cricket Communications, Inc. and substantially all of their subsidiaries filed voluntary petitions for relief under Chapter 11 of the United States Bankruptcy Code (Chapter 11) in the United States Bankruptcy Court for the Southern District of California (jointly administered as Case Nos. 03-03470-LA to 03-03535-LA). Each of the debtors continues to manage its properties and operate its business as a debtor-in-possession under the jurisdiction of the Bankruptcy Court and in accordance with Sections 1107(a) and 1108 of Chapter 11.

Plan of Reorganization Procedures

As provided by Chapter 11, for 120 days after the Petition Date the debtors have the exclusive right to propose and file a plan of reorganization with the Bankruptcy Court and an additional 60 days within which to solicit acceptance by creditors and equity security holders of any such plan. The Bankruptcy Court may shorten or extend the period of exclusivity for cause shown and, as long as the period of exclusivity continues, no other party may file a plan of reorganization. In addition, the debtors may request an extension of the exclusivity period. However, there can be no assurance that the Bankruptcy Court will grant such an extension. If the debtors fail to obtain confirmation of their proposed plan of reorganization and the Bankruptcy Court terminates the exclusivity period, any party in interest, including a creditor, an equity security holder or a committee of creditors, following the expiration of the exclusivity period, may file a plan of reorganization for the debtors. Even if the debtors file a plan of reorganization within the period of exclusivity, there can be no assurance that the proposed plan of reorganization will be confirmed by the Bankruptcy Court, or that such plan will be consummated. Conversely, the Bankruptcy Court may confirm a plan even though it was not accepted by one or more impaired classes of creditors, if certain requirements of Chapter 11 are met.

Under Chapter 11, the debtor files a disclosure statement with the Bankruptcy Court at the time it files a plan of reorganization. The disclosure statement summarizes the terms of the debtor s plan of reorganization and contains information concerning, among other matters, the debtor s history, business, results of operations, management, properties and liabilities and the assets available for distribution under its plan, as well as the anticipated organization and operation of the reorganized company. The disclosure statement also describes certain effects of plan confirmation, certain risk factors associated with the plan, the manner in which distributions will be made to the debtor s creditors under the plan for all amounts that were owed to such parties on the petition date, and the confirmation process and voting procedures that holders of claims in impaired classes must follow for their votes to be counted.

On April 14, 2003, we filed a preliminary draft of a plan of reorganization and disclosure statement (the Draft Plan) with the Bankruptcy Court. The Draft Plan and disclosure statement reflect the general parameters of terms that are under negotiation between Leap and Cricket, an informal committee of Leap noteholders, and an informal committee of Cricket senior secured vendor debtholders. We filed the Draft Plan and disclosure statement at the request of the informal committee of Leap s noteholders.

We continue to negotiate with our creditors and with potential investors to reach agreement on a plan of reorganization, and hope to finalize negotiations on the plan and disclosure statement with the informal creditors committees in the next few weeks. However, there can be no assurance that such an agreement will be reached. The terms of any plan of reorganization agreed to could differ materially from the Draft Plan.

Under any plan of reorganization in the Chapter 11 proceedings, management of Leap expects that there will be very limited or no value flowing to Leap as a result of its ownership interests in Cricket and its related companies, and that there will be little or no value available for distribution to the common stockholders of Leap.

Under the general parameters set forth in the Draft Plan, Cricket s senior vendor debtholders would receive, on a pro rata basis, (1) $300-500 million of senior secured notes issued by reorganized Cricket, and (2) newly-issued shares of reorganized Leap common stock constituting 93-97% of the issued and outstanding equity of reorganized Leap. Holders of general unsecured claims against Leap (including the unsecured claims of holders of Leap s senior notes and senior discount notes) would receive, on a pro rata basis, (1) the unsecured cash, cash equivalents and short-term investments at the Leap level (which aggregated approximately $82.4 million as of February 28, 2003) and interest thereon, (2) newly issued shares of reorganized Leap common stock constituting 3-5% of the issued and outstanding equity of reorganized Leap, and (3) other assets not used in the Cricket business to be transferred to a creditor trust and liquidated. Holders of secured claims with respect to Leap s senior notes also would receive, on a pro rata basis, approximately $14 million in cash previously pledged to secure payments of interest to the senior noteholders. Holders of outstanding shares of Leap common stock could potentially receive, on a pro rata basis, newly issued shares of reorganized Leap common stock constituting 0-2% of the issued and outstanding equity of reorganized Leap. The terms of any plan of reorganization agreed to could differ materially from the Draft Plan.

The Draft Plan contains other customary terms and conditions, and would require FCC approval to become effective.

The foregoing summary does not purport to be complete and is qualified in its entirety by reference to the Petitions and the motions, pleadings and papers on file with the Bankruptcy Court.

First Day Motions and Other Chapter 11 Matters

At hearings held on April 14, 2003, the Bankruptcy Court granted the debtors first day motions for various relief designed to continue their operations and business relationships with customers, vendors, employees and others and entered orders authorizing the debtors to pay pre-petition and post-petition employee wages, salaries, benefits and certain other employee obligations during the pendency of the Chapter 11 proceedings. In addition, the Bankruptcy Court granted Cricket s first day motion for an interim order authorizing the use of its cash collateral pursuant to a budget approved by the informal committee of Cricket s senior secured vendor creditors and its financial advisor. A hearing to consider approval of the order on a final basis has been scheduled for May 7, 2003.

Although the debtors are authorized to operate their business and manage their properties as debtors-in-possession, they may not engage in transactions outside the ordinary course of business without complying with the notice and hearing provisions of Chapter 11 and obtaining prior Bankruptcy Court approval. An official committee of Leap s unsecured creditors will likely be formed by the United States Trustee. The unsecured creditors committee and various other parties in interest, including creditors holding pre-petition

Table of Contents

claims, such as Leap s bondholders and Cricket s senior secured vendor creditors, have the right to appear and be heard on all matters that come before the Bankruptcy Court.

Shortly after the Petition Date, the debtors began notifying all known or potential creditors of the Chapter 11 filing. The Chapter 11 filing triggered defaults on substantially all debt and lease obligations of the debtors. Under Section 362 of Chapter 11, most pending pre-petition claims and litigation against the debtors are stayed automatically, and absent further order of the Bankruptcy Court, no party may take any action to recover such pre-petition claims, enforce any pre-petition lien against or obtain possession of any property from the debtors. In addition, pursuant to Section 365 of Chapter 11, the debtors may reject or assume pre-petition executory contracts and unexpired nonresidential real property leases, and parties affected by rejections of these contracts or leases may file claims with the Bankruptcy Court in accordance with Chapter 11. Unless otherwise agreed, the assumption of an executory contract or lease generally will require the debtors to cure all prior defaults under the related executory contract or lease, including all pre-petition liabilities. In this regard, we expect that liabilities subject to the proceedings will arise in the future as a result of the rejection of additional executory contracts and leases, and from the determination of the Bankruptcy Court (or agreement by parties in interest) of allowed claims for contingencies and other disputed amounts. Due to the uncertain nature of many of the potential claims, we are unable to project the magnitude of such claims with any degree of certainty.

Under Chapter 11, the rights and treatment of pre-petition creditors and equity security holders may be substantially altered. At this time, it is not possible to predict the outcome of either the Chapter 11 proceedings or the effect such proceedings will have on the debtors creditors and common stockholders. Under the priority scheme established by Chapter 11, certain post-petition liabilities and pre-petition liabilities need to be satisfied before stockholders are entitled to receive any distribution. The ultimate recovery to the debtors creditors and common stockholders, if any, will not be determined until confirmation of a plan of reorganization. Under any plan of reorganization in the Chapter 11 proceedings, management of Leap expects that there will be very limited or no value flowing to Leap as a result of its ownership interests in the Cricket companies, that unsecured claims against Leap will be satisfied at a fraction of their face value, and that there will be little or no value available for distribution to the common stockholders of Leap. Because of this possibility, any investment in Leap or Cricket is highly speculative. Accordingly, we urge that appropriate caution be exercised with respect to existing and future investments in any equity or debt securities of Leap or Cricket.

We currently expect that the Chapter 11 proceedings will not affect our ability to provide uninterrupted service to our customers. We expect that we will experience some loss of customers and some failure to attract new customers as a result of the Chapter 11 filing in the near term, but do not expect this impact to be significant beyond the near term. The rights of our creditors and equity security holders will be determined through the Chapter 11 proceedings. However, we cannot provide any assurances on the effect of the Chapter 11 proceedings on our business, creditors or security holders. Our future results are dependent upon our finalizing, filing, confirming and implementing, on a timely basis, a plan of reorganization with the Bankruptcy Court.

We have incurred, and will continue to incur, significant costs associated with the Chapter 11 proceedings. We believe that our existing cash assets and cash from operations should provide us with adequate liquidity to conduct our business during the pendency of the Chapter 11 proceedings. However, we can provide no assurances in this regard. See Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources.

Cricket Business Overview

The Cricket companies offer wireless service in the U.S. under the brand Cricket®, which is marketed as Comfortable Wireless®. Our innovative Cricket strategy is designed to extend the benefits of mobility to the mass market by offering wireless service that is as simple to use and understand as, and is a competitive mobile alternative to, traditional landline service. In each Cricket market, the Cricket companies are deploying 100% digital, CDMA networks that we believe provide higher capacity and more efficient

Table of Contents

deployment of capital than competing technologies. CDMA technology, combined with our efforts to streamline operations and distribution, allows the Cricket companies to be a low-cost provider of wireless services in each Cricket market.

Cricket service allows customers to make virtually unlimited calls within a local calling area and receive virtually unlimited calls from any area for a flat monthly rate. Cricket customers can also make long distance calls on a per-minute basis or as part of a packaged offering. The simplicity of the Cricket service allows Cricket to sustain lower operating costs per customer compared to traditional wireless providers. Cricket s networks are designed and built to provide coverage in the local calling area where our target customers live, work and play. As a result, we believe that Cricket s per minute network operating costs are lower than, or comparable to, the lowest costs incurred by traditional wireless providers.

We continue to focus on enhancing our Cricket service with new products and services designed to meet the needs of our growing customer base. We offer competitively priced long distance offers for calls to all parts of the United States, Canada and Mexico. We have Spanish language marketing and advertising campaigns, Spanish directory assistance and Spanish language billing as part of our ongoing focus on the growing Hispanic market. We offer unlimited inter-carrier text messaging in all of our markets. We also offer a service called Cricket Talk™ that bundles certain features, 500 minutes of available long distance and virtually unlimited local service for a fixed monthly fee to more effectively compete with other telecommunications providers. Since its launch, Cricket Talk has represented a significant portion of our gross customer additions.

Under a license from Leap, Chase Telecommunications, a company that we acquired in March 2000, introduced the Cricket service in Chattanooga, Tennessee in March 1999. As of December 31, 2002, Cricket offered service in 40 markets covering a total population of approximately 25.5 million potential customers. These markets are located in 48 basic trading areas, or BTAs, and make up all of the markets that we refer to as our 40 Market Plan. As of December 31, 2002, Cricket had:

- approximately 1,512,000 customers in its markets across the U.S.; and
- acquired wireless licenses covering approximately 53.1 million potential customers in 33 states.

Arbitration Award

In August 2002, Leap issued 21,020,431 shares of its common stock to MCG PCS, Inc. pursuant to a binding arbitration award. The issuance of these shares constituted an event of default under Cricket s senior secured vendor credit facilities. After issuance of these shares, the lenders under Cricket s senior secured vendor credit facilities ceased funding new loan requests, including requests to fund interest payments that previously had been financed through draws under the credit facilities.

Nasdaq Delisting

On December 11, 2002, our common stock was delisted from the Nasdaq National Market and began trading on the OTC Bulletin Board. Our common stock was delisted because:

- we did not comply with Nasdaq s shareholder approval requirements before issuing shares to MCG;
- we did not comply with the net tangible assets or stockholders equity requirement for continued listing; and
- we did not meet the minimum bid price requirement for continued listing as a result of our common stock having traded below $1.00 per share for 30 consecutive trading days.

Sale of Pegaso

In September 2002, Leap completed the sale of its 20.1% interest in Pegaso Telecomunicaciones, S.A. de C.V., a company providing wireless service in Mexico, to Telefónica Móviles, S.A. At the closing, Leap received cash proceeds of approximately $22.2 million for the sale of its shares. In October 2002, Leap received approximately $15.8 million of additional cash from a loan repayment related to the sale.

Cricket Business Strategy

We believe that the Cricket service offering will help transform wireless phone service from a luxury product into a mass consumer product. The Cricket strategy is to provide digital wireless service to the mass market with a simple, easy to understand approach. As a part of the Cricket strategy, we intend to:

Enhance the Mass Market Appeal of Wireless Service. We are working to remove the price and complexity barriers that we believe have prevented many potential customers from using wireless service. We believe that large segments of the population do not use wireless service because they view wireless service as an expensive luxury item, believe they cannot control the cost of service, or find existing service plans too confusing. Our service plans are designed to attract new customers by offering simple, predictable affordable wireless services that are a competitive mobile alternative to landline service.

Offer an Appealing Value Proposition. We strive to provide service offerings that combine high quality and advanced features with simplicity and attractive pricing to create a high value/reasonable price proposition and broaden the market for wireless services. We offer Cricket service plans at flat rates, as a mobile alternative to traditional landline service.

Control and Minimize Costs. To become one of the lowest-cost providers in the wireless industry, we minimize our capital costs by engineering high-quality, efficient networks to cover only the urban and suburban areas of our markets where most of our potential customers live, work and play, while avoiding rural areas and corridors between distant markets. This strategy also allows us to acquire only those wireless licenses that we deem to be appropriately priced and to avoid acquiring wireless licenses that may be overpriced or cost ineffective in a local calling area simply to provide expansive geographic coverage and roaming capability. We minimize operating costs per customer through reduced network operation costs, streamlined billing procedures, the control of customer care expenses and lower customer investigation costs. We also are focused on streamlining marketing, distribution and customer support operations. We strive to maintain lower customer acquisition costs by offering simple service plans with a limited choice of handsets, and by distributing our product through company stores, cost effective third-party retail stores where the mass market shops and our website while maintaining appropriate levels of advertising.

Leverage CDMA Technology. We have deployed state-of-the-art CDMA networks that are designed to provide higher capacity at a lower capital cost that can be easily upgraded to support enhanced capacity. We believe this enables us to operate superior networks that support planned customer growth and high usage. In addition, we believe our CDMA networks provide a better platform to expand into other wireless information services based on advances in second and third generation digital technology in the future.

Cricket Business Operations

General. Our business strategy is different from existing models used by typical cellular or PCS wireless providers. Most of these providers offer consumers a complex array of rate plans that include additional charges for minutes above a set maximum, as well as fees for roaming, that may result in monthly service charges that are higher than expected. Approximately 50% of the U.S. population currently does not subscribe to wireless service, and we believe that many of these potential customers perceive wireless service as too expensive and complicated. The Cricket service is based on our vision that the mass market wants wireless service to be predictable, affordable and as simple to understand and use as traditional landline telephone service, but with the benefits of mobility.

We have designed the Cricket service to appeal to consumers who make the majority of their calls from within the local areas in which they live, work and play. The Cricket service allows customers to make and receive virtually unlimited calls within a local calling area for a flat monthly rate, as shown on a simple, straightforward bill, that is a competitive mobile alternative to traditional landline service. Through September 2002, Cricket customers paid in advance each month s service. Commencing in October 2002, we no longer include a first month of service with the handset purchase and new Cricket customers pay for their service in arrears. Because we recognize revenues for customers who pay in arrears only when received, we do not record a reserve for bad debt for service revenues. Commencing in September 2002, we also began charging customers for service plan changes, and commencing in November 2002, we began charging activation fees and began requiring new customers on our Cricket Talk plan to maintain active service for 12 months or be subject to an early termination fee. In addition to local calling, directory assistance calls and long distance minutes can be purchased in advance and direct dialed without the use of a special code or card, or can be purchased as part of a packaged offering. We also generate equipment revenues from the sale of handsets and accessories though our retail sales locations, third-party dealers and distributors and our website.

We continue to focus on enhancing our Cricket service with new products and services designed to meet the needs of our growing customer base. We have expanded our competitively priced long distance offers which now include Canadian and Mexican long distance. We have also introduced Spanish language marketing and advertising campaigns, Spanish directory assistance and Spanish language billing as part of our ongoing focus on the growing Hispanic market. In June and July 2002, we launched unlimited inter-carrier text messaging in all 40 of our markets. In August 2002, we launched a new service named Cricket Talk that bundles caller ID, call waiting, three-way calling, 500 minutes of available long distance and virtually unlimited local service for a fixed monthly fee to more effectively compete with other telecommunications providers. Since its launch, Cricket Talk has represented a significant portion of our gross customer additions.

Market Opportunity. Wireless penetration was approximately 50% in the U.S. at the end of December 2002. Traditional wireless companies have generally focused their U.S. marketing on highly mobile customers, including business users, who are likely to generate the highest revenues. Their customers are typically offered multiple service plans with prices based on the customer s minutes of use during the billing period. Leap believes that the numerous plans offered by wireless companies have tended to confuse many potential customers. Market research indicates that many people are interested in a wireless product but are concerned about the cost, complexity and unpredictability of traditional wireless pricing plans.

Sales and Distribution. We differentiate the Cricket service concept and seek to increase our market share through promoting a simplified buying process and focusing marketing efforts on potential customers in the communities covered by our local wireless networks. The Cricket approach is to penetrate our target markets while minimizing our sales and marketing expenses, primarily by keeping the customer s purchase decision simple, thus minimizing the need for sales commissions and associated residuals.

The Cricket service and wireless handsets are sold through three main channels:

- Cricket retail stores in high-traffic locations and Cricket kiosks;
- the local stores of national retail chains; and
- independent third-party dealers who are well positioned through their principal lines of business to reach our target potential customers.

The Cricket service plan is designed so that a potential customer can make a purchase decision with little or no sales assistance. Customers can read about the Cricket service at the point of sale and learn virtually all they need to know about the service without consulting a complicated plan summary or a specialized sales person. We simplify the customer s decision process by limiting the number of Cricket handset models available. We believe the sales costs for the Cricket service are lower than traditional wireless providers because of this streamlined sales approach.

We combine mass marketing strategies and tactics to build awareness of the Cricket service concept and brand name within the communities we serve. Because the Cricket service is offered in distinct island markets, we advertise in local publications, on local radio stations and in local television commercials. In addition to local advertising efforts, we maintain an informational Web site for the Cricket service. Some third-party Internet retailers sell the Cricket service over the Internet, and we are developing our own direct Internet sales strategy.

Network and Operations. The Cricket service is based on providing customers with levels of usage equivalent to landline and at prices substantially lower than most of our wireless competitors for similar usage. We believe our success depends on operating our networks to provide high, concentrated capacity with good in-building coverage rather than the broad, geographically dispersed coverage provided by traditional wireless carriers. Our Cricket networks are in local population centers of self-contained communities where we believe roaming is not an important component of service for our target customers. Unlike traditional wireless providers who build networks covering wide areas to permit roaming by their customers, we believe that we can deploy our capital more efficiently by tailoring our networks only to our target population centers and omitting underutilized roaming sites between those population centers.

The appeal of our service in any given market is not dependent on the Cricket service having ubiquitous coverage in the rest of the country or region surrounding the market. Because our business model is scalable, we can launch our networks on a market-by-market basis.

Cricket Communications, Inc. has infrastructure equipment purchase agreements with Lucent Technologies Inc., Nortel Networks Inc. and Ericsson Wireless Communications Inc. for the purchase of equipment and services necessary to maintain and increase the capacity of our Cricket networks for the 40 Market Plan. However, because Cricket has not paid certain amounts it owes to Lucent, Nortel and Ericsson under its respective equipment purchase agreements with these suppliers, Cricket s purchase agreements with Lucent and Nortel now require that Cricket pay for purchases in advance, and Ericsson has indicated to Cricket that it requires similar payment terms. Further, as a result of events of default and terminations of commitments, Cricket is no longer able to borrow under its senior secured vendor credit agreements to pay for purchases of equipment and services, and Cricket may not have cash available for purchases from these vendors that are necessary to improve the coverage and capacity of its existing networks. See Risk Factors If We Are Unable to Find Suppliers Willing to Supply or Finance New Equipment and Services, We May Be Unable to Maintain or Expand Our Telecommunications Networks. During the pendency of the Chapter 11 proceedings, we intend to seek a negotiated agreement with these suppliers that settles amounts currently due and allows Cricket to purchase equipment and services on appropriate terms for the restructured company. We cannot guarantee that we will be able to obtain such agreements.

In connection with Cricket s purchase of equipment and services from Lucent, Nortel and Ericsson, these vendors previously agreed to provide financing for the equipment and services they provide and for certain other related expenses. At December 31, 2002, Cricket had $1,541.3 million, net of discount, of debt under its senior secured vendor credit agreements, and $55.1 million payable to Lucent, Nortel and Ericsson for the purchase of equipment and services. Borrowings under the senior secured vendor credit agreements at December 31, 2002 had a weighted-average interest rate of 9.9% per annum. Cricket is currently in default under the senior secured vendor credit agreements. These agreements are described in Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Credit Facilities and Other Financing Arrangements.

Wireless Licenses. The following table shows the wireless licenses that we owned as of December 31, 2002, which cover approximately 53.1 million potential customers. Each wireless license listed is pledged to secure Cricket s senior secured vendor credit facilities, unless otherwise noted.

Market	Population(1)	MHz
Anchorage, AK(4)	467,422	30
Birmingham, AL(4)	1,338,096	15
Tuscaloosa, AL(4)	258,085	15
Blytheville, AR	71,440	15
Fayetteville, AR(2)	340,740	30
Fort Smith, AR(2)	333,623	30
Hot Springs, AR(2)	142,209	15
Jonesboro, AR(2)	184,285	10
Little Rock, AR(2)	979,869	20
Pine Buff, AR(2)	155,312	20
Russellville, AR(4)	100,881	15
Nogales, AZ(4)	39,695	20
Phoenix, AZ(2)	3,622,225	10
Tucson, AZ(2)	870,435	15
Merced, CA(2)	232,925	15
Modesto, CA(2)	513,881	15
Redding, CA(3)(4)(6)	280,109	15
Visalia, CA(2)	509,867	15

Denver/ Boulder, CO(2)	2,808,808	10
Ft. Collins, CO(2)	261,360	10
Greeley, CO(2)	188,382	10
Pueblo, CO(2)(3)(6)	319,522	30
Lakeland, FL(3)	495,740	10
Albany, GA(4)	360,228	15
Columbus, GA(2)	367,939	30
Macon, GA(2)	674,123	30

Market	Population(1)	MHz
Boise, ID(2)	609,200	30
Idaho Falls, ID(3)(4)	277,941	15
Twin Falls, ID(3)(4)	166,241	15
Lewiston, ID(3)(4)(6)	125,512	30
Peoria, IL(4)	462,956	15
Evansville, IN	525,972	10
Ft. Wayne, IN(4)	725,696	10
Coffeyville, KS(4)	61,192	15
Wichita, KS(2)(5)(6)	664,523	30
Owensboro, KY(4)	165,683	10
Adrian, MI	99,900	25
Battle Creek, MI(2)	242,434	25
Escanaba, MI(3)(6)	47,595	10
Flint, MI(2)	508,715	10
Grand Rapids, MI	1,104,294	25
Jackson, MI(2)	207,485	25
Kalamazoo, MI(2)	382,152	10
Lansing, MI	512,321	10
Mount Pleasant, MI	139,616	10
Muskegon, MI	227,988	15
Saginaw-Bay City, MI	642,409	10
Traverse City, MI	252,833	10
Bemidji, MN(3)(6)	67,792	10
Brainerd, MN(3)(6)	100,428	10
Duluth, MN	415,862	10
Jackson, MS	687,415	10
Vicksburg, MS	61,792	10
Bozeman, MT(3)(4)(6)	86,277	20
Charlotte/ Gastonia, NC(2)	2,139,136	10
Greensboro/ Winston-Salem/ High Point, NC(2)	1,485,806	10
Hickory, NC(2)	349,288	10
Fargo, ND(4)	319,099	15
Grand Forks, ND(4)	202,277	15
Lincoln, NE(2)	352,539	15
Omaha, NE(2)	1,004,837	10
Albuquerque, NM(2)	853,280	15
Gallup, NM(4)	147,508	15
Roswell, NM(4)	82,349	15
Santa Fe, NM(2)	225,450	15
Reno, NV(2)	612,437	10
Buffalo, NY(2)	1,210,156	10
Plattsburgh, NY(7)	119,353	10
Syracuse, NY(2)	779,144	15
Utica, NY	299,377	10
Watertown, NY(7)	302,692	15
Dayton/ Springfield, OH(2)	1,221,241	10
Marion, OH	98,612	10
Sandusky, OH(2)	139,506	15
Steubenville, OH	130,317	10
Toledo, OH(2)	790,134	15
Tulsa, OK(2)	966,936	15
Eugene, OR(2)	328,965	10
Salem/ Corvallis, OR(2)(3)(6)	541,410	20
Johnstown, PA	230,890	10
Pittsburgh/ Butler/ Uniontown/ Washington/ Latrobe, PA(2)	2,464,811	10
Chattanooga, TN(2)	576,867	15

Clarksville, TN(2)	272,253	15
Knoxville, TN(2)	1,144,419	15
Memphis, TN(2)	1,579,375	15
Nashville/ Murfreesboro, TN(2)	1,811,753	15
Eagle Pass, TX(4)	119,697	15
Lufkin, TX	164,791	10
Provo, UT(2)	392,981	15
Salt Lake City/ Ogden, UT(2)	1,677,325	15
Kennewick/ Pasco/ Richland, WA(4)(5)(6)	198,099	15
Spokane, WA(2)	760,885	15
Yakima, WA(4)(5)(6)	262,053	15
Appleton-Oshkosh, WI	460,186	10
Eau Claire, WI	197,655	10
La Crosse, WI-Winona, MN	324,039	10
Stevens Point-Marshfield-Wisconsin Rapids, WI	216,597	20
Casper, WY(3)(4)(6)	147,826	30
Total	53,143,776	

(1) 2002 market population estimates provided by Claritas Inc.

(2) Designates wireless licenses or portions of wireless licenses in markets launched under our 40 Market Plan.

(3) Designates wireless licenses covering a total of approximately 2.6 million potential customers that we have contracted to exchange and/or sell in several transactions for certain operating assets, cash and wireless licenses, which cover a total of approximately 1.2 million potential customers in Rochester, New York. In these transactions, we have contracted to retain 15 MHz of our wireless licenses in the Lewiston, Idaho market and 20 MHz of our wireless licenses in the markets of Pueblo, Colorado and Salem, Oregon. There is significant risk that several of these transactions may not close because the other party to the transaction has asserted that we have failed to meet the conditions required for them to close as set forth in the agreements.

(4) Designates wireless licenses subject to an FCC initial buildout deadline in 2004 that we have not yet met.

(5) Designates wireless licenses covering a total of approximately 1.1 million potential customers that we have indirectly pledged to secure an obligation to GLH, Inc., a company with which we exchanged certain wireless licenses. Our obligation to pay GLH $8.4 million ($8.1 million net of discount) is currently in default. GLH has given us a notice of default and of its intent to sell the wireless licenses pursuant to the pledge agreement. We have retained 15 MHz of our wireless licenses in the Wichita, Kansas market.

(6) Designates wireless licenses that are not pledged to secure Cricket s senior secured vendor credit facilities.

(7) Designates wireless licenses for which the final transfer is subject to the payment of approximately $346,000 to the FCC.

The above table does not include wireless licenses covering 0.4 million potential customers that are subject to FCC buildout dates which have expired without completion of the required buildout. These wireless licenses have no carrying value and are subject to forfeiture to the FCC.

Leap was the winning bidder for 22 wireless licenses covering approximately 24.1 million potential customers in the FCC s Auction 35. The former holder of the licenses challenged the validity of Auction 35 in court, and the licenses were never granted to us. In December 2002, we accepted an offer from the FCC and withdrew from our commitment and right to purchase the licenses on which we were the successful bidder. In connection with that withdrawal, we received a refund of $10.5 million in payments we had made to the FCC relating to Auction 35, which was in addition to the $74.2 million received earlier in the year. We have applied for a refund of the remaining approximately $268,000 of payments we made to the FCC in connection with Auction 35.

Leap s Rights and Interests. Our wholly owned subsidiary, Cricket Communications Holdings, Inc., owns Cricket Communications, Inc., which is the operating company that is implementing the Cricket strategy.

Capital Requirements and Projected Investments. If we decide to build or operate networks beyond our existing 40 Market Plan, we would require substantial new capital. The amount of financing that we would require for these efforts will vary depending on the number of these networks that are developed, including any markets covered by our future wireless license acquisitions, if any, and the speed at which we construct and launch these networks. For a more detailed description of our capital requirements and liquidity, see Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources.

Regulatory Environment. For a description of the extensive regulation governing our domestic business, see Government Regulation, Risk Factors Our Failure to Remain Qualified to Hold C-Block and F-Block Licenses Could Have a Material Adverse Effect on Our Business and Our Financial Condition and Results of Operations and On Our Ability to Obtain FCC Approval of a Plan of Reorganization and Risk Factors We May Not Satisfy the Buildout Deadlines and Geographic Coverage Requirements Applicable to Our Licenses, Which May Result in the Revocation of Some of Our Licenses or the Imposition of Fines and/or Other Sanctions.

International Investments

Pegaso

Leap was a founding shareholder and made investments in and loans to Pegaso Telecomunicaciones, S.A. de C.V., a company providing wireless service in Mexico, totaling $120.5 million. In the fourth quarter of fiscal 2001, Leap discontinued its use of the equity method of accounting for Pegaso and ceased recognizing its share of Pegaso s losses because its investment in and loans to Pegaso had been reduced to zero on its books of account.

In September 2002, Leap completed the sale of its 20.1% interest in Pegaso to Telefónica Móviles, S.A. At the closing, Leap received cash proceeds of approximately $22.2 million for the sale of its shares. In October 2002, Leap received approximately $15.8 million of additional cash from a loan repayment related to the sale. In connection with the sale, Leap was released from its obligations under a $33 million guarantee by delivering to Qualcomm its rights under the warrants Leap acquired in connection with the guarantee. Pursuant to Cricket s senior secured vendor credit facilities, Leap was obligated to set aside or contribute to the Cricket companies approximately $25.8 million of the proceeds of the sale of Pegaso. In light of the financial condition and expected restructuring of Leap and Cricket, however, Leap did not make the set asides and contributions and instead retained such funds at Leap. Leap s failure to contribute or set aside such amounts was a breach of contract by Leap and an additional event of default under the senior secured vendor credit facilities.

Smartcom

On June 2, 2000, Leap completed the sale of its Chilean operating subsidiary, Smartcom, S.A., to Endesa, S.A., a Spanish utility company. Smartcom owns and operates a nationwide wireless system in Chile. Under the terms of Leap s agreement with Endesa, a portion of the purchase price was payable in a promissory note in the original principal amount of $35.0 million. This promissory note matured on June 2, 2001 and bears interest at a rate equal to the 3-month LIBOR, compounded semi-annually. This promissory note is subject to a right of set-off to secure the indemnification obligations under the purchase agreement between the parties. Endesa has asserted claims of up to $48.7 million against Leap and its wholly owned Chilean subsidiary for breach of representations and warranties under the purchase agreement and has notified us that it is offsetting the claims against the unpaid balance of the note. Leap has caused its wholly owned Chilean subsidiary to be merged with and into Leap. Therefore, the $35.0 million note is owned by Leap, and the claims of Endesa are against Leap. The note matured on June 2, 2001, and Leap expects it to remain unpaid until the issues related to the claims are resolved. Leap believes that Endesa s claims are without merit, and Leap is contesting Endesa s claims.

Competition

The telecommunications industry generally is very competitive and competition is increasing. At December 31, 2002, we were the ninth largest U.S. wireless carrier based on customers. However, unlike many wireless providers, we also intend to compete as a mobile alternative to landline service providers in the telecommunications industry. Local and long distance wireline carriers have also begun to aggressively advertise in the face of increasing competition from wireless carriers, cable operators and other competitors. Many competitors have substantially greater resources than we have, and we may not be able to compete successfully. Some competitors have announced rate plans substantially similar to the Cricket service plan in markets in which we have launched service. In addition, the competitive pressures of the wireless telecommunications market have caused other carriers to offer service plans with increasingly large bundles of minutes of use at increasingly low prices which are competing with the Cricket predictable and virtually unlimited calling plan. These competitive plans could adversely affect our ability to maintain our pricing, market penetration and customer retention. Moreover, the wireless industry has experienced a general slow down in the rate of new customer activations during the second half of 2001 and in 2002. If these trends continue, they could have material adverse impacts on our business, financial condition and results of operations.

In the U.S., we compete directly with other wireless providers and as a mobile alternative to traditional landline service in each of our markets, many of which have greater resources than we do and entered the markets before us. A few of our competitors operate wireless telecommunications networks covering most of the U.S. Our competitors earlier entry and broader presence in the U.S. telecommunications market may have a negative effect on our ability to successfully implement our strategy. Furthermore, the FCC is pursuing policies designed to increase the number of wireless licenses available in each of our markets. In addition, other wireless providers in the U.S. either have implemented or could attempt to implement plans substantially similar to our strategy of providing unlimited local service at a flat monthly rate. We may not be successful in our efforts to persuade potential customers to adopt our wireless service in addition to, or in replacement of, their current landline service.

We compete with companies that use other communications technologies, including paging and digital two-way paging, enhanced specialized mobile radio and domestic and global mobile satellite service. These technologies may have advantages over the technology we use and may ultimately be more attractive to customers. We may compete in the future with companies that offer new technologies and market other services, including cable television access, landline telephone service and Internet access, that we do not currently intend to market. Some of our competitors offer these other services together with their wireless communications service, which may make their services more attractive to customers. In addition, we expect that, over time, providers of wireless communications services will compete more directly with providers of traditional landline telephone services. In addition, energy companies, utility companies and cable operators may expand their services to offer communications services.

Government Regulation

The spectrum licensing, construction, operation, sale and interconnection arrangements of wireless communications networks are regulated to varying degrees by state regulatory agencies, the FCC, Congress, the courts and other governmental bodies. Proceedings before these bodies, such as the FCC and state regulatory authorities, could have a significant impact on the competitive market structure among wireless providers and on the relationships between wireless providers and other carriers. These mandates may impose significant financial obligations on us and other wireless providers. We are unable to predict the scope, pace or financial impact of legal or policy changes that could be adopted in these proceedings.

Licensing and Buildout of PCS Systems. A broadband PCS system operates under a protected geographic service area license granted by the FCC for a particular market on one of six frequency blocks allocated for broadband PCS. Broadband PCS systems generally are used for two-way voice applications. Narrowband PCS systems, in contrast, are for non-voice applications such as paging and data service and are separately licensed. The FCC has segmented the U.S. PCS markets into 51 large regions called major trading areas, which are comprised of 493 smaller regions called basic trading areas. The FCC awards two broadband PCS licenses for each major trading area and four licenses for each basic trading area. Thus, generally, six licensees will be authorized to compete in each area. The two major trading area licenses authorize the use of 30 MHz of spectrum. One of the basic trading area licenses is for 30 MHz of spectrum, and the other three are for 10 MHz each. The FCC permits licensees to split their licenses and assign a portion, on either a geographic or frequency basis or both, to a third party. In recent years, the FCC has also further split licenses in connection with re-auctions of PCS spectrum. Two cellular licenses are also available in each market. Cellular markets are defined as either metropolitan statistical or rural service areas.

The FCC s spectrum allocation for PCS includes two licenses, a 30 MHz C-Block license and a 10 MHz F-Block license, that are designated as Entrepreneur s Blocks. The FCC requires holders of these licenses to meet certain threshold financial size qualifications. In addition, the FCC has determined that designated entities who qualify as small businesses or very small businesses, as defined by a complex set of FCC rules, receive additional benefits, such as bidding credits in C-Block or F-Block spectrum auctions or re-auctions, and in some cases, an installment loan from the federal government for a significant portion of the dollar amount of the winning bids in the FCC s initial auctions of C-Block and F-Block licenses. The FCC s rules also allow for publicly traded corporations with widely dispersed voting power, as defined by the FCC, to hold C-Block and F-Block licenses and to qualify as small or very small businesses. In July 1999, the FCC issued an opinion and order that found that we were entitled to acquire C-Block and F-Block licenses as a publicly traded corporation with widely dispersed voting power and a very small business under FCC rules. In July 2000, the FCC affirmed its July 1999 order.

All PCS licenses have a 10-year term, at the end of which they must be renewed. The FCC will award a renewal expectancy to a PCS licensee that has:

- provided substantial service during its past license term; and

- has substantially complied with applicable FCC rules and policies and the Communications Act.

All PCS licensees must satisfy buildout deadlines and geographic coverage requirements within five and/or ten years after the license grant date. For 30 MHz C-Block licenses, this initial requirement is met when adequate service is offered to at least one-third of the population of the licensed service area. For 15 MHz and 10 MHz C-Block licenses and 10 MHz F-Block licenses, the initial requirement is met when adequate service is provided to at least one-quarter of the population in the licensed service area. Because we obtained many of our wireless licenses from third parties subject to existing buildout requirements, some of our licenses have initial buildout deadlines in 2004. We have met the buildout requirements in all markets where we currently offer Cricket service. However, we have not satisfied the minimum buildout requirements for all material wireless licenses that we intend to use in the Cricket business or sell or transfer to third parties, and we currently do not have the financial resources to complete such buildouts. See Business Cricket Business Operations above for a detailed list of those markets with initial buildout deadlines in 2004 that we have not yet met. We intend to either raise additional resources to fund the buildout or sell or otherwise transfer the material licenses for which we have not yet satisfied the buildout requirement before the deadline. Failure to comply with these buildout requirements could cause the revocation of some of our licenses or the imposition of fines and/or other sanctions. No adjustments have been recorded in the financial statements regarding the potential inability to develop the wireless licenses that expire in the near future. Any subsequent expiration of these licenses could have a material adverse effect on our financial position and results of operations.

For a period of up to five years after the grant of a PCS license, subject to extension, a licensee will be required to share spectrum with existing licensees that operate certain fixed microwave systems within its license area. In an effort to balance the competing interests of existing microwave users and newly authorized

Table of Contents

PCS licensees, the FCC has adopted a transition plan to relocate such microwave operators to other spectrum blocks and a cost sharing plan so that if the relocation of an incumbent benefits more than one PCS licensee, those licensees will share the cost of the relocation. To secure a sufficient amount of unencumbered spectrum to operate our PCS systems efficiently and with adequate population coverage, we may need to relocate one or more of these incumbent fixed microwave licensees.

This transition plan currently allows most microwave users to operate in the PCS spectrum for a two-year voluntary negotiation period and an additional one-year mandatory negotiation period. Parties unable to reach agreement within these time periods may refer the matter to the FCC for resolution, but the incumbent microwave user is permitted to continue its operations until final FCC resolution of the matter. The transition and cost sharing plans expire on April 4, 2005, at which time remaining microwave incumbents in the PCS spectrum will be responsible for the costs of relocating to alternate spectrum locations. We have included estimates of the costs of relocating microwave users to alternate spectrums in our business plans.

PCS services are subject to certain FAA regulations governing the location, lighting and construction of transmitter towers and antennas and may be subject to regulation under Federal environmental laws and the FCC s environmental regulations. State or local zoning and land use regulations also apply to our activities. We expect to use common carrier point-to-point microwave facilities to connect the transmitter, receiver and signaling equipment for each PCS or cellular cell to the cell sites, and to link them to the main switching office. The FCC licenses these facilities separately and they are subject to regulation as to technical parameters and service.

Ongoing Compliance with C-Block and F-Block Eligibility Rules. For a description of our need to comply with C-Block and F-Block eligibility rules, see Risk Factors Our Failure to Remain Qualified to Hold C-Block and F-Block Licenses Could Have a Material Adverse Effect on Our Business and Our Financial Condition and Results of Operations and On Our Ability to Obtain FCC Approval of a Plan of Reorganization.

Transfer and Assignment of PCS Licenses. The Communications Act and FCC rules require the FCC s prior approval of the assignment or transfer of control of a license for a PCS or cellular system, including any transfer of control that may arise out of our plan of reorganization. Non-controlling interests in an entity that holds an FCC license generally may be bought or sold without FCC approval, subject to the FCC s spectrum aggregation review. The FCC previously had defined a hard limit on the amount of broadband PCS, cellular and specialized mobile radio spectrum that a single entity could hold in a particular geographic market. Effective January 1, 2003, the FCC phased out this spectrum cap entirely, and now reviews spectrum transactions on a case-by-case basis. The FCC also eliminated its cellular cross-interest rule in metropolitan cellular markets. These rule modifications may make it easier for large wireless carriers to consolidate spectrum assets and to acquire smaller wireless carriers, and could adversely affect our entry into new wireless markets.

C-Block and F-Block licenses historically have been subject to certain additional transfer and assignment restrictions, including a prohibition on the assignment or transfer of such licenses for a period of five years following the initial license grant date to any entity that fails to satisfy C-Block and F-Block financial qualification requirements. The FCC revised these rules in August 2000. Under the revised rules, a C-Block or F-Block license may be transferred to non-designated entities once the licensee has met its five-year coverage requirement. Such transfers will remain subject to certain costs and reimbursements to the government of any bidding credits or outstanding principal and interest payments owed to the FCC.

Foreign Ownership. Under existing law, no more than 20% of an FCC licensee s capital stock may be owned, directly or indirectly, or voted by non-U.S. citizens or their representatives, by a foreign government or its representatives or by a foreign corporation. If an FCC licensee is controlled by another entity, as is the case with our ownership structure, up to 25% of that entity s capital stock may be owned or voted by non-U.S. citizens or their representatives, by a foreign government or its representatives or by a foreign corporation unless waived by the FCC. Foreign ownership above the 25% holding company level may be allowed should the FCC find such higher levels not inconsistent with the public interest. The FCC has ruled that higher levels of foreign ownership, even up to 100%, are presumptively consistent with the public interest with respect to investors from certain nations. If our foreign ownership were to exceed the permitted level, the FCC could revoke our wireless licenses, although we could seek a declaratory ruling from the FCC allowing the foreign ownership or take other actions to reduce our foreign ownership percentage in order to avoid the loss of our wireless licenses. We have no knowledge of any present foreign ownership in violation of these restrictions.

Other Recent Industry Developments. The FCC has a number of other complex requirements and proceedings that affect the operation of our business. For example, FCC rules currently require wireless carriers to make available emergency 911 services, including enhanced emergency 911 services that provide the caller s telephone number and detailed location information to emergency responders, as well as a requirement that emergency 911 services be made available to users with speech or hearing disabilities. The FCC also recently reaffirmed its requirement that wireless carriers allow subscribers to take their existing telephone numbers when switching carriers. That decision, which we supported as a benefit to competition, is currently on appeal to the U.S. Court of Appeals for the D.C. Circuit. We also are subject or potentially subject to interconnection, reciprocal compensation and universal service obligations; rules governing billing and subscriber privacy; rules governing wireless resale and roaming obligations; rules that require wireless service providers to configure their networks to facilitate electronic surveillance by law enforcement officials; and rules requiring us to offer equipment and services that are accessible to and usable by persons with disabilities. Some of these requirements pose technical and operational challenges to which we, and the industry as a whole, have not yet developed clear solutions. These requirements are all the subject of pending FCC or judicial proceedings, and we are unable to predict how they may affect our business, financial condition or results of operations.

The Supreme Court recently invalidated the FCC s cancellation of PCS licenses held by NextWave Personal Communications, Inc. and certain other entities. We had submitted high bids in that re-auction to purchase several of those licenses, but the FCC has confirmed that the results of that auction are no longer binding. In December 2002, we accepted an offer from the FCC and withdrew from our commitment and right to purchase the licenses on which we were the successful bidder in Auction 35. In connection with that withdrawal, we received a refund of $10.5 million in payments we had made to the FCC relating to Auction 35, which was in addition to the $74.2 million received earlier in the year. We have applied for a refund of the remaining approximately $268,000 of payments we made to the FCC in connection with Auction 35. The FCC also has begun auctioning several blocks of spectrum formerly occupied by television channels 52 through 69, which it states may be usable to provide services that could be competitive with ours.

State Regulation and Local Approvals. Congress has given the FCC the authority to preempt states from regulating rates or entry into commercial mobile radio service, including PCS. The FCC, to date, has denied all state petitions to regulate the rates charged by commercial mobile radio service providers. State and local governments are permitted to manage public rights of way and can require fair and reasonable compensation from telecommunications providers, on a competitively neutral and nondiscriminatory basis, for the use of such rights of way by telecommunications carriers, including PCS providers, so long as the compensation required is publicly disclosed by the government. The siting of base stations also remains subject to state and local jurisdiction, although proceedings are pending at the FCC to determine the scope of that authority. States may also impose competitively neutral requirements that are necessary for universal service, to protect the public safety and welfare, to ensure continued service quality and to safeguard the rights of consumers. While a state may not impose requirements that effectively function as barriers to entry or create a competitive disadvantage, the scope of state authority to maintain existing or to adopt new such requirements is unclear. State commissions have become increasingly aggressive in their efforts to conserve numbering resources.

Privacy. We have developed and intend to comply with a policy designed to protect the privacy of our customers and their personal information.

Table of Contents

Financial Information Concerning Segments and Geographical Information

Financial information concerning Leap s operating segment and the geographic area in which it operates is set forth in Note 13 to the consolidated financial statements set forth in Item 8 of this report.

Employees

On December 31, 2002, Leap s subsidiary, Cricket Communications, Inc., employed approximately 1,439 full time employees, and Leap had no employees.

Table of Contents

RISK FACTORS

Our Plan of Reorganization May Not Be Timely Finalized, May Not Be Confirmed By the Bankruptcy Court, and May Not Be Successfully Consummated

Leap, Cricket and substantially all of their subsidiaries filed voluntary petitions for relief under Chapter 11 of the United States Bankruptcy Code on April 13, 2003. We continue to negotiate with our creditors and with potential investors to reach agreement on a plan of reorganization. However, there can be no assurance that such agreement will be reached. Under Chapter 11, for 120 days after the Petition Date the debtors have the exclusive right to propose and file a plan of reorganization with the Bankruptcy Court and an additional 60 days within which to solicit acceptance by creditors and equity security holders of any such plan. The Bankruptcy Court may shorten or extend the period of exclusivity for cause shown and, as long as the period of exclusivity continues, no other party may file a plan of reorganization. In addition, the debtors may request an extension of the exclusivity period. However, there can be no assurance that the Bankruptcy Court will grant such an extension. Even if the debtors file a plan of reorganization within the period of exclusivity, there can be no assurance that the proposed plan of reorganization will be confirmed by the Bankruptcy Court. Section 1129 of Chapter 11 requires, among other things, a showing that confirmation of the plan will not be followed by liquidation or the need for further financial reorganization, and that the value of distributions to dissenting holders of claims and interests may not be less than the value such holders would receive if the debtors were liquidated under Chapter 7 of the United States Bankruptcy Code. There can be no assurance that the Bankruptcy Court will conclude the plan satisfies the requirements of Section 1129. Conversely, the Bankruptcy Court may confirm a plan even though it was not accepted by one or more impaired classes of creditors, if certain requirements of Chapter 11 are met. If the Bankruptcy Court does not confirm our plan of reorganization, we would be required to submit and seek approval of an alternative plan of reorganization. We can give no assurances that we would be successful in these efforts. If we fail to obtain confirmation of a plan of reorganization within the exclusivity period and the Bankruptcy Court terminates the exclusivity period, any party in interest, including a creditor, an equity security holder or a committee of creditors may file a plan of reorganization for us.

Currently, it is not possible to predict with certainty the length of time we will operate under the protection of Chapter 11, the outcome of the Chapter 11 proceedings in general, or the effect of the Chapter 11 proceedings on our business or on the interests of our stakeholders. Lengthy Chapter 11 proceedings may adversely affect our operating results, our ability to fund our operations and our relationships with our suppliers and customers.

Any plan of reorganization in the Chapter 11 proceedings will likely provide for certain conditions that must be fulfilled prior to the effective date of the plan. Therefore, even if the Bankruptcy Court confirms the plan, consummation of the plan will likely be dependent upon a number of conditions typical in restructurings, as well as FCC approval. There can be no assurance that any or all of the conditions in the plan will be met (or waived) or that the other conditions to consummation of the plan, if any, will be satisfied. Accordingly, we can provide no assurances that the plan will be consummated and the restructuring completed. If the plan is not consummated, it could result in our Chapter 11 proceedings becoming protracted or being converted into Chapter 7 liquidation proceedings, either of which would substantially erode the value of our enterprise to the detriment of all stakeholders.

Our Chapter 11 Proceedings May Result in a Negative Public Perception of Leap and Cricket That May Adversely Affect Our Relationships with Customers and Suppliers, As Well As Our Business, Results of Operations and Financial Condition

Even if we submit a plan of reorganization that is confirmed by the Bankruptcy Court and consummated by us, our Chapter 11 filing may negatively impact the public perception of Leap, Cricket and their subsidiaries. If, due to negative press articles or otherwise, our current and potential customers perceive us as a company with financial difficulties, they may decide not to purchase our products or services, or suppliers may decide to no longer supply us with their products or services or to supply those products and services to us only on less favorable terms. Our ability to attract and retain customers may be adversely affected by our

Chapter 11 filing, which could have a material negative impact on our liquidity and results of operations. Negative public perception could also adversely impact our future access to additional capital, make it more difficult to hire and retain key employees and have other material adverse effects on our business, results of operations and financial condition.

Holders of Certain Claims and Interests, Including the Holders of Leap Common Stock, Warrants and Options, Will Likely Receive Little or No Distributions Under the Plan of Reorganization

Under Chapter 11, the rights and treatment of pre-petition creditors and equity security holders may be substantially altered. At this time, it is not certain what effect the Chapter 11 proceedings will have on our creditors and common stockholders. Under the priority scheme established by Chapter 11, certain post-petition liabilities and pre-petition liabilities need to be satisfied before stockholders are entitled to receive any distribution. The ultimate recovery to our creditors and common stockholders, if any, will not be determined until confirmation of a plan of reorganization. No assurance can be given as to what values, if any, ultimately will be ascribed in the Chapter 11 proceedings to each of these constituencies. Under any plan of reorganization in the Chapter 11 proceedings, management of Leap expects that there will be very limited or no value flowing to Leap as a result of its ownership interests in the Cricket companies, that unsecured claims against Leap will be satisfied at a fraction of their face value, and that there will be little or no value available for distribution to the common stockholders of Leap. Because of this possibility, any investment in Leap or Cricket is highly speculative. Accordingly, we urge that appropriate caution be exercised with respect to existing and future investments in any equity or debt securities of Leap or Cricket.

Parties to Executory Contracts May File Motions with the Bankruptcy Court to Require Us to Assume or Reject the Contracts, and We May Be Prohibited from Assuming Certain Intellectual Property Licenses

Parties to pre-petition executory contracts and unexpired nonresidential real property leases may, under certain circumstances, file motions with the Bankruptcy Court to require us to assume or reject such contracts. An executory contract is one in which the parties have mutual obligations to perform (e.g., real property leases). Unless otherwise agreed, the assumption of a contract will require us to cure all prior defaults under the related executory contract or lease, including all pre-petition liabilities. Unless otherwise agreed, the rejection of a contract is deemed to constitute a breach of the agreement as of the moment immediately preceding the Petition Date, giving the other party to the contract a right to assert a general unsecured claim for damages arising out of the breach. Additional liabilities subject to the Chapter 11 proceedings may arise in the future as a result of the rejection of executory contracts and leases, and from the determination of the Bankruptcy Court (or agreement by parties in interest) of allowed claims for contingencies and other disputed amounts.

We license the use of patents and copyrights from various suppliers of software to us. There is a risk that the Bankruptcy Court could find that, absent the consent of the other party, we would be unable to assume these licenses and would no longer be entitled to use such software. Any such loss could have an immediate and material adverse effect on our business, results of operations and financial condition.

We Have Incurred, and Expect to Continue to Incur, Significant Costs Associated with the Chapter 11 Proceedings

We have incurred, and expect to continue to incur, significant costs associated with the Chapter 11 proceedings. The amount of these costs, which are being expensed as incurred, is expected to have a significant adverse effect on our results of operations. See Item 7. Management s Discussion and Analysis of Results of Operations and Financial Condition Liquidity and Capital Resources.

In Their Audit Report, Our Independent Accountants Express Substantial Doubt About Our Ability to Continue as a Going Concern

Our independent accountants have included a going concern paragraph in their audit report on our audited 2002 financial statements. See the Report of Independent Accountants and Note 2 to the consolidated financial statements included in Item 8 of this report. The audit report states that our Chapter 11 filing raises substantial doubt about our ability to continue as a going concern. Our financial statements assume we will continue as a going concern, but our ability to do so will require a successful restructuring of our outstanding indebtedness and may require obtaining additional financing. Failure to achieve these objectives could lead to the financial failure of our company.

Our Failure to Remain Qualified to Hold C-Block and F-Block Licenses Could Have a Material Adverse Effect on Our Business and Our Financial Condition and Results of Operations and On Our Ability to Obtain FCC Approval of a Plan of Reorganization

Our business plan depends on our operation of C-Block and F-Block licenses. We may acquire and operate C-Block and F-Block licenses only if we qualify as an Entrepreneur under FCC rules or the first buildout deadline on these licenses has been met.

The FCC s grants of our C-Block and F-Block licenses are subject to conditions. Each of the conditions imposed by the FCC has been satisfied. We have a continuing obligation, during the designated entity holding period for our C-Block and F-Block licenses, to limit our debt to Qualcomm to 50% or less of our outstanding debt and to ensure that persons who are or were previously officers or directors of Qualcomm do not comprise a majority of our board of directors or a majority of our officers. If we fail to continue to meet any of the conditions imposed by the FCC or otherwise fail to maintain our qualification to own C-Block and F-Block licenses, including applicable attribution thresholds associated with C-Block and F-Block licenses, that failure could trigger a number of adverse consequences, including possible triggering of FCC unjust enrichment rules and the acceleration of installment payments still owed to the U.S. Treasury for some PCS licenses. In addition, we might not be able to continue to acquire additional C-Block and F-Block PCS licenses in the aftermarket. These consequences could have a material adverse effect on our business and financial condition.

Various parties previously challenged our qualification to hold C-Block and F-Block licenses, which challenges were rejected by the FCC in 1999. We may also be affected by other pending or future FCC, legislative or judicial proceedings that generally affect the rules governing C-Block and F-Block licensees or other designated entities. For example, in the past three years FCC rules have made it easier for large companies to acquire C-Block and F-Block licenses at auction and in the aftermarket. Effective January 1, 2003, the FCC phased out the cap on the amount of combined PCS, cellular and specialized mobile radio spectrum that any particular carrier may acquire in a wireless market.

We may not prevail in connection with any of these challenges, appeals or proceedings. If the FCC or a court determines that we are not qualified to hold C-Block or F-Block licenses, it could take the position that some or all of our licenses should be divested, cancelled or re-auctioned, or that we should pay financial penalties.

In addition, the deemed transfer of control of our wireless licenses in connection with any plan of reorganization under the Chapter 11 proceedings will require FCC approval. If we fail to remain qualified to hold C-Block and F-Block licenses, that failure could adversely affect our ability to obtain FCC approval of a plan of reorganization and/or could substantially delay obtaining such approval. Any failure to obtain or substantial delay in obtaining FCC approval of a plan of reorganization could result in our Chapter 11 proceedings being converted into Chapter 7 liquidation proceedings, which would substantially erode the value of our enterprise to the detriment of all stakeholders.

The Creditors   Committees and Other Parties In Interest May Not Support Our Positions in the Chapter 11 Proceedings

The unsecured creditors   committee likely to be appointed in the Chapter 11 proceedings and various other parties in interest, including creditors holding pre-petition claims, such as Leap   s bondholders and Cricket   s senior secured vendor creditors, have the right to appear and be heard on all matters that come before the Bankruptcy Court. There can be no assurance that these committees and other parties in interest will support our positions in the Chapter 11 proceedings or the plan of reorganization, once proposed. Disagreements between us and these committees and other parties in interest could protract the Chapter 11 proceedings, could negatively impact our ability to operate during the pendency of the Chapter 11 proceedings and could delay our emergence from Chapter 11.

Our Ability to Raise Capital and the Liquidity of Our Stock May Be Adversely Affected by the Fact That Our Shares are Not Listed On the Nasdaq National Market System or Any Other Major Exchange

The fact that our shares are not listed on the Nasdaq National Market System or any other major exchange could reduce the liquidity of our common stock and make it more difficult for a stockholder to obtain accurate quotations as to the market price of our common stock. Reduced liquidity of our common stock also may reduce our ability to access the capital markets in the future. In addition, under any plan of reorganization in the Chapter 11 proceedings, it is likely that our existing equity securities will be cancelled and that new equity securities of Leap will be issued upon our emergence from Chapter 11. There can be no assurance that any new equity securities of Leap issued under the plan of reorganization will be listed on the Nasdaq National Market System or any other major exchange.

We Have Experienced Slower Customer Growth Rates Than Planned Due to the Current Economic Slowdown, Increased Competition in the Wireless Telecommunications Market, and Our Announcement of Restructuring Discussions, Which Has Adversely Affected the Management of Our Business

During the year ended December 31, 2002, we experienced slower customer growth rates than planned. Some other wireless carriers also have reported slower customer growth rates compared to prior periods. We believe the slower customer growth rates were due in large part to:

- the current economic slowdown;
- increased competition in the wireless telecommunications market causing some major carriers to offer plans with increasingly large bundles of minutes of use at increasingly lower prices which compete with the Cricket predictable and virtually unlimited calling plan; and
- concerns over the potential negative outcomes of our participating in restructuring discussions.

Our business plan and estimated future operating results are based on estimates of key operating metrics, including:

- customer growth;
- customer churn;
- average monthly revenue per customer;
- losses on sales of handsets and other customer acquisition costs; and
- other operating costs.

These factors and our subsequent Chapter 11 filing have created a level of uncertainty that affects our ability to predict future customer growth, as well as other key operating metrics that are dependent on customer growth. This uncertainty has, in turn, adversely affected the management of our business.

Table of Contents

We Have Experienced Net Losses Since Inception, We Anticipate Significant Losses for the Next Several Years, and We May Be Unable to Become Profitable

Leap and its subsidiaries experienced net losses of $664.8 million in the year ended December 31, 2002, $483.3 million in the year ended December 31, 2001, $0.2 million in the year ended December 31, 2000, $75.8 million in the transition period from September 1, 1999 to December 31, 1999, $164.6 million in the fiscal year ended August 31, 1999, $46.7 million in the fiscal year ended August 31, 1998 and $5.2 million in the fiscal year ended August 31, 1997. We may not generate profits in the short term or at all. If we fail to achieve profitability after emerging from Chapter 11, that failure would have a negative effect on our financial condition and on the market price of the common stock of a reorganized Leap or Cricket.

Leap s Stock Price Has Declined Significantly Since the Beginning of 2002, Remains Volatile and May Continue to Decline

The market price of Leap common stock has declined significantly since the beginning of 2002 and may continue to decline in the future. The last sale price of Leap s common stock on the OTC Bulletin Board on April 10, 2003 was $0.17 per share, down from the closing price of $21.31 on January 2, 2002, the first trading day of the prior year, as reported by the Nasdaq National Market. Leap s stock price may continue to decline in the future as a result of the Chapter 11 filing, implementation of a plan of reorganization, sustained resales of Leap common stock by MCG and other stockholders and other factors related to the business and financial condition of Leap specifically and related to the unsettled nature of the wireless telecommunications market generally.

Leap s stock price has historically been volatile and may be subject to significant volatility in the future, particularly on a quarterly basis. Events related to the Chapter 11 filing and shortfalls in our revenues, earnings, customer growth or other business metrics relative to the levels and schedule expected by securities analysts could immediately, significantly and adversely affect the trading price of Leap common stock. In addition, the stock market in general, and the stock prices of telecommunications companies and other technology-based companies in particular, have experienced significant volatility in recent periods.

Our Issuance of 21,020,431 Shares to MCG PCS, Inc. Substantially Increased Our Shares of Common Stock Outstanding, and Sustained Resales of These Shares Will Lead to a Decrease in the Market Price of Our Common Stock

As a result of Leap s issuance of 21,020,431 shares to MCG PCS, Inc. in August 2002, there has been a substantial increase in the number of outstanding shares of Leap common stock. MCG now holds approximately 36% of Leap s outstanding common stock, and approximately 28% of Leap common shares on a fully diluted basis. We have filed a resale registration statement on Form S-1 for these shares on behalf of MCG which has not yet been declared effective. Should the registration statement be declared effective and should MCG undertake sustained resales of shares of Leap common stock pursuant to the registration statement, further decreases in the market price of Leap common stock could occur.

Beginning in December 2002, Securities Class Action Lawsuits Were Filed Against Leap, Which Could Have a Material Adverse Effect on Our Business, Financial Condition and Results of Operations

Beginning in December 2002, securities class action lawsuits were filed against Leap on behalf of all persons who purchased or otherwise acquired Leap common stock from February 11, 2002 through July 24, 2002. The complaints allege that Leap and certain of its officers and directors issued materially misleading statements concerning Leap s financial condition. Leap believes the claims are without merit and is vigorously defending against the action. However, litigation of this type could result in substantial costs and a diversion of our management s attention and resources, which could, in turn, have a material adverse effect on our business, financial condition and results of operations. In addition, we cannot predict with certainty the outcome of this litigation.

Our Business Strategy Is Subject to Executions Risks, and We May Not Attract the Number of Customers Necessary to Be Successful In the Long Term

Our business strategy is to offer consumers a service, marketed under the brand Cricket that allows them to make virtually unlimited calls within a local area and receive unlimited calls from any area for a flat monthly rate. Cricket customers can also make long distance calls on a per-minute basis or as part of a packaged offering. This strategy is a relatively new approach to marketing wireless services. While it has shown a strong ability to attract new customers following launch, it may not prove to be successful in the long term. Our marketing efforts may not draw the volume of customers necessary to sustain our business plan, our capital and operating costs may exceed planned levels, and we may be unable to compete effectively as a mobile alternative to landline or with other wireless service providers in our markets over the longer term. In addition, potential customers may perceive the Cricket service to be less appealing than other wireless plans, which offer more features and options, including the ability to roam outside of the home service area. See Item 1. Business Competition above.

Our Planned and New Services May Not Be Successful

We currently have several new services that are in development. In addition, we recently launched a new service that bundles certain features, 500 minutes of available long distance and virtually unlimited local service for a fixed monthly fee to more effectively compete with other telecommunications providers. These planned and new services are unproven. They may not attract or retain customers at a rate necessary to make them profitable and otherwise may not prove to be successful.

We Face Increasing Competition, and Some Major Carriers Have Offered Service With Increasingly Large Bundles of Minutes of Use At Increasingly Low Prices, Which Could Have a Material Adverse Effect on Demand For the Cricket Service

The telecommunications industry generally is very competitive and competition is increasing. Unlike many wireless providers, we also intend to compete as a mobile alternative to landline service providers in the telecommunications industry. Wireline carriers have begun to aggressively advertise in the face of increasing competition from wireless carriers, cable operators and other competitors. We may not be successful in our efforts to persuade potential customers to adopt our wireless service in addition to, or in replacement of, their current landline service.

Some competitors have announced rate plans substantially similar to the Cricket service plan in markets in which we have launched service. In addition, the competitive pressures of the wireless telecommunications market have caused other carriers to offer service plans with increasingly large bundles of minutes of use at increasingly low prices which are competing with the Cricket predictable and virtually unlimited calling plan. These competitive plans could adversely affect our ability to maintain our pricing, market penetration and customer retention. Our competitors have begun to price their services more aggressively and may attract more customers because of their stronger market presence and geographic reach and their larger financial resources. Many competitors have substantially greater resources than we have, and we may not be able to compete successfully. See Item 1. Business Competition above.

If We Experience a Higher Rate of Customer Turnover Than Planned, Our Costs Could Increase

Many providers in the U.S. personal communications services industry have experienced a high rate of customer turnover. Our rate of customer turnover may be affected by several factors, including limited network coverage, reliability issues, such as blocked or dropped calls, handset problems, inability to roam onto cellular networks, affordability, customer care concerns and other competitive factors. Our strategy to address customer turnover may not be successful, or the rate of customer turnover may be unacceptable. In some markets, our competitors have chosen to provide a service plan with pricing similar to the Cricket service, and these competitive factors could also cause increased customer turnover. A high rate of customer turnover could reduce revenues and increase marketing costs to attract the minimum number of replacement customers required to sustain our business plan, which, in turn, could have a material adverse effect on our business, financial condition and results of operations.

If Our Strategies to Reduce and Control Customer and Dealer Fraud Are Not Successful, It Could Have a Material Adverse Impact On Our Business

During the first quarter of 2002, we experienced a significant increase in the occurrence of credit card, subscription and dealer fraud over that experienced in the preceding year. The increase in fraud impacted our business primarily by reducing revenue, reducing calculated ARPU and increasing handset subsidy costs, which caused our CPGA to be higher than it otherwise would have been. Beginning in the second quarter of 2002, we instituted strategies to manage the impacts of fraud on our business. We instituted more timely and targeted dealer performance and inventory monitoring systems that provide us with near real-time reporting of dealer performance metrics, including the rates of churn and first bill non-payments by individual stores. We also eliminated some of our indirect distribution locations. In addition, we have enacted various customer and credit card validation procedures, as well as policies to require cash payment from any customer identified as using fraudulent credit card information. Fraud has been an issue in the wireless industry nearly since its inception and customers continue to devise ways to defraud. We have strategies to detect and deal with these new efforts to defraud us and we believe that our efforts have substantially reduced the types of fraud we have identified. However, if these strategies are not successful in detecting and controlling fraud in the future, it could have a material adverse impact on our financial condition and results of operations.

The Loss of Key Personnel, Difficulty Attracting and Retaining Qualified Personnel, and the Change in Management Contemplated by the Plan of Reorganization Could Harm Our Business

We believe our success depends on the contributions of a number of our key personnel. These key personnel include but are not limited to Harvey P. White, Chairman of the Board and Chief Executive Officer, and Susan G. Swenson, President and Chief Operating Officer. In material part due to our announcement of restructuring discussions and subsequent Chapter 11 filing, we are experiencing higher than normal turnover, including turnover of individuals at the vice president level. This loss of key individuals, and particularly the cumulative effect of these losses, may have a material, adverse impact on our ability to manage and operate our business. We do not maintain key person life insurance on any employee. We also may have difficulty attracting, developing, motivating and retaining experienced and innovative personnel as a result of our Chapter 11 filing, which could adversely affect our business operations and financial condition. In addition, any plan of reorganization in the Chapter 11 proceedings may provide for a change in the composition of our Board of Directors and/or a change in our stockholder base. We cannot assure you that a new Board of Directors or new stockholders would maintain the current direction of the company or that a new Board of Directors would retain the current management team.

If We Are Unable to Find Parties Willing to Supply or Finance New Equipment and Services, We May Be Unable to Maintain or Expand Our Telecommunications Networks

Although we have launched service and substantially completed our networks in all markets in our initial 40 Market Plan, over time we will need to improve the coverage and capacity of our existing networks through the installation of additional network equipment. However, we have not paid certain amounts we owe to Lucent, Nortel and Ericsson under our respective equipment purchase agreements with these suppliers. Our purchase agreements with Lucent and Nortel now require that we pay for purchases in advance, and Ericsson has indicated to us that it requires similar payment terms. Further, as a result of events of default and terminations of commitments, we are no longer able to borrow under our senior secured vendor credit agreements to pay for purchases of equipment and services, and we may not have cash available for purchases from these vendors that are necessary to improve the coverage and capacity of our existing networks. In addition, our trade creditors may refuse to supply us, may restrict their supply to us or may condition their supply to us upon pre-payment. We may not be able to find other vendors, trade creditors or third parties to supply us on terms that are acceptable to us, or at all. If our existing vendors and trade creditors cease

Table of Contents

supplying us and we are unable to secure alternate suppliers and trade creditors, our business would be materially adversely affected.

We May Experience Difficulties In Constructing Our Networks Due to Our Reliance on Third Parties to Provide Necessary Services and Our Reliance On Governmental Bodies to Provide Permits and Approvals

We depend heavily on suppliers and contractors to successfully complete our construction projects. We may experience quality deficiencies, cost overruns and delays on these construction projects, including deficiencies, overruns and delays not within our control or the control of our contractors. We also will depend on third parties not under our control or the control of our contractors to provide backhaul and interconnection facilities on a timely basis. In addition, the construction of new telecommunications networks requires the receipt of permits and approvals from numerous governmental bodies, including municipalities and zoning boards. There are pressures to limit growth and tower and other construction in many of our markets. Failure to receive these approvals in a timely fashion can delay system rollouts and can raise the costs of completing construction projects. Some of our previous Cricket launches were delayed and launched with fewer cell sites than desirable and therefore, reduced coverage as well. Our failure to obtain third party services or permits and approvals on a timely basis could increase our costs, reduce our revenues and otherwise have a material adverse effect on our business, financial condition and results of operations.

If Call Volume Under Our Cricket Flat Price Plans Exceeds the Capacity of Our Wireless Networks, Our Costs of Providing Service Could Increase, Which Could Have a Material Adverse Affect On Our Competitive Position

Our Cricket strategy is to offer consumers wireless service that allows them to make virtually unlimited calls within a local area and receive unlimited calls from any area for a flat monthly rate. Cricket customers can also make long distance calls on a per-minute basis or as part of a packaged offering. Our current plans assume, and our experience has shown, that our Cricket customers use their phones approximately 1,200 minutes per month, and some markets are experiencing substantially higher call volumes. We design our networks to accommodate this expected high call volume. However, if wireless use by Cricket customers exceeds the capacity of our future networks, service quality may suffer. We may be forced to raise the price of Cricket service to reduce volume or otherwise limit the number of new customers, or incur substantial capital expenditures to improve network capacity. If our planned networks cannot handle the call volumes they experience, our competitive position and business prospects could be materially adversely affected.

In addition, we recently launched a new service that bundles certain features, 500 minutes of available long distance and virtually unlimited local service for a fixed monthly fee to more effectively compete with other telecommunications providers. Our current plans assume, and our experience has shown, that customers of our bundled service use approximately 120 minutes of long distance per month. If customers use all of the long distance minutes included with this new service, we could face capacity problems and our costs of providing the service could increase, making it uneconomic to continue providing the service. If we are unable to cost-effectively provide our new products and services to customers, our competitive position and business prospects could be materially adversely affected.

Declines in the Fair Value of Our Wireless Licenses Below Their Carrying Value Could Ultimately Result in an Impairment Charge

Statement of Financial Accounting Standard No. 142 requires wireless licenses classified as indefinite-lived intangible assets to be tested for impairment as of January 1, 2002 and at least annually thereafter and when there is evidence that events or changes in circumstances indicate that an impairment condition may exist. When performing an impairment test, if the fair value of the asset is less than its carrying value, an impairment loss is recognized. The fair values of our wireless licenses are based primarily on available market prices, including successful bid prices in FCC auctions and selling prices observed in wireless license transactions. Based on the current difficulties being experienced within the telecommunications and wireless industries, wireless license prices in future FCC auctions or selling prices observed in future wireless license transactions could decline significantly and, as a result, the value of our wireless licenses could be subject to significant impairment losses in the future. The outcome of our Chapter 11 proceedings may also adversely affect the carrying value of our wireless licenses as a result of fresh start accounting. A significant impairment loss could have a material adverse effect on our operating income and the carrying value of our wireless licenses on our balance sheet.

Declines in Our Operating Performance or Changes in Our Business Climate Could Ultimately Result in an Impairment of Our Long-Lived Assets

We assess potential impairments to our long-lived assets, including property and equipment and other intangible assets, when there is evidence that events or changes in circumstances indicate that the carrying value of the assets may not be recoverable. Because our long-lived assets do not have identifiable cash flows that are largely independent of other asset groupings, we compare our total estimated undiscounted future cash flows, excluding interest costs, to the carrying value of our long-lived and indefinite-lived assets in performing our impairment tests. Our estimated future operating results are based on estimates of key operating metrics, including customer growth, customer churn, average monthly revenue per customer and costs per gross additional customer. If we do not achieve these metrics and, as a result, do not achieve our planned operating results, this may have a significant adverse effect on our estimated undiscounted future cash flows and may ultimately result in an impairment charge related to our long-lived assets. In addition, the outcome of our Chapter 11 proceedings may also adversely affect the carrying value of our long-lived assets as a result of fresh start accounting. A significant impairment loss could have a material adverse effect on our operating income and the carrying value of our long-lived assets on our balance sheet.

Our Issuance of Shares to MCG PCS, Inc. Qualifies, and Implementation of Our Plan of Reorganization is Likely to Qualify, as a Change in Our Ownership under Internal Revenue Code Section 382 and Limits Our Ability to Use Our Net Operating Loss and Credit Carryforwards

Our issuance of 21,020,431 shares to MCG PCS, Inc. in August 2002 caused a change in our ownership under Internal Revenue Code Section 382. Accordingly, there will be a significant annual limitation on our ability to use our net operating loss and credit carryforwards. There is also likely to be a change in our ownership as defined under Internal Revenue Code Section 382 in connection with our Chapter 11 filing, which may result in a further limitation on our ability to use our net operating loss and credit carryforwards. If there is a significant elimination or reduction of our outstanding indebtedness as a result of the Chapter 11 filing, we will realize a significant amount of cancellation of indebtedness income. Although we should not be required to recognize such cancellation of indebtedness income for tax purposes, we will be required to reduce our net operating loss and credit carryforwards by the amount of such income realized. If the amount of the cancellation of indebtedness income exceeds the amount of our net operating loss and credit carryforwards, we may be required to reduce other tax attributes (e.g., tax basis in our assets) by the amount of such excess. The Chapter 11 filing may result in the merger of certain subsidiaries and the transfer of assets among subsidiaries. If these mergers and transfers cannot be structured in a tax-efficient manner, we may owe significant income taxes as a result.

If MCG PCS, Inc. Acquires One Additional Share of Our Common Stock, That Acquisition Would Trigger a Distribution of the Rights Under Our Stockholder Rights Plan

Leap has a rights plan that could discourage, delay or prevent an acquisition of Leap under certain circumstances. The rights plan provides for preferred stock purchase rights attached to each share of Leap common stock, which will cause substantial dilution to a person or group acquiring 15% or more of Leap s stock if the acquisition is not approved by Leap s Board of Directors. Because the issuance of shares to MCG PCS, Inc. pursuant to the arbitration award would have otherwise triggered the rights plan, Leap amended the rights plan to provide that ownership of our common stock in excess of the 15% threshold by MCG, together with all of its affiliates and associates existing on August 29, 2002, solely as a result of the number of shares they beneficially owned on August 29, 2002, plus the shares issued to MCG in connection with the arbitration award, will not trigger the rights plan, unless and until MCG, together with all of its affiliates and associates existing on August 29, 2002, acquires one or more additional shares of our common stock. If MCG acquires one additional share of our common stock other than those shares excluded under the rights plan, its ownership in our common stock would be significantly diluted. Therefore, Leap s rights plan may have the effect of preventing MCG from acquiring shares of our common stock. For a description of the rights plan, see the section entitled Stockholder Rights Plan in Note 8 to the consolidated financial statements included in Item 8 of this report.

Our Failure to Remain Qualified to Hold C-Block and F-Block Licenses Could Have a Material Adverse Effect on Our Business and Our Financial Condition and Results of Operations and On Our Ability to Obtain FCC Approval of a Plan of Reorganization

Our business plan depends on our operation of C-Block and F-Block licenses. We may acquire and operate C-Block and F-Block licenses only if we qualify as an Entrepreneur under FCC rules or the first buildout deadline on these licenses has been met.

The FCC s grants of our C-Block and F-Block licenses are subject to conditions. Each of the conditions imposed by the FCC has been satisfied. We have a continuing obligation, during the designated entity holding period for our C-Block and F-Block licenses, to limit our debt to Qualcomm to 50% or less of our outstanding debt and to ensure that persons who are or were previously officers or directors of Qualcomm do not comprise a majority of our board of directors or a majority of our officers. If we fail to continue to meet any of the conditions imposed by the FCC or otherwise fail to maintain our qualification to own C-Block and F-Block licenses, including applicable attribution thresholds associated with C-Block and F-Block licenses, that failure could trigger a number of adverse consequences, including possible triggering of FCC unjust enrichment rules and the acceleration of installment payments still owed to the U.S. Treasury for some PCS licenses. In addition, we might not be able to continue to acquire additional C-Block and F-Block PCS licenses in the aftermarket. These consequences could have a material adverse effect on our business and financial condition.

Various parties previously challenged our qualification to hold C-Block and F-Block licenses, which challenges were rejected by the FCC in 1999. We may also be affected by other pending or future FCC, legislative or judicial proceedings that generally affect the rules governing C-Block and F-Block licensees or other designated entities. For example, in the past three years FCC rules have made it easier for large companies to acquire C-Block and F-Block licenses at auction and in the aftermarket. Effective January 1, 2003, the FCC phased out the cap on the amount of combined PCS, cellular and specialized mobile radio spectrum that any particular carrier may acquire in a wireless market.

We may not prevail in connection with any of these challenges, appeals or proceedings. If the FCC or a court determines that we are not qualified to hold C-Block or F-Block licenses, it could take the position that some or all of our licenses should be divested, cancelled or re-auctioned, or that we should pay financial penalties.

In addition, the deemed transfer of control of our wireless licenses in connection with any plan of reorganization under the Chapter 11 proceedings will require FCC approval. If we fail to remain qualified to hold C-Block and F-Block licenses, that failure could adversely affect our ability to obtain FCC approval of a plan of reorganization and/or could substantially delay obtaining such approval. Any failure to obtain or substantial delay in obtaining FCC approval of a plan of reorganization could result in our Chapter 11 proceedings being converted into Chapter 7 liquidation proceedings, which would substantially erode the value of our enterprise to the detriment of all stakeholders.

We May Not Satisfy the Buildout Deadlines and Geographic Coverage Requirements Applicable to Our Licenses, Which May Result in the Revocation of Some of Our Licenses or the Imposition of Fines and/or Other Sanctions

Each of our licenses is subject to an FCC mandate that we construct PCS networks that provide adequate service to specified percentages of the population in the areas covered by that license, or make a showing of substantial service in that area, within five and/or ten years after the license grant date. For 30 MHz C-Block licenses, this initial requirement is met when adequate service is offered to at least one-third of the population of the licensed service area. For 15 MHz and 10 MHz C-Block licenses and 10 MHz F-Block licenses, the initial requirement is met when adequate service is provided to at least one-quarter of the population in the licensed service area. Some of our wireless licenses have initial buildout deadlines in 2004. We have met the buildout requirements in all markets where we currently offer Cricket service. However, we have not satisfied the minimum buildout requirements for all material wireless licenses that we intend to use in the Cricket business or sell or transfer to third parties, and we currently do not have the financial resources to complete such buildouts. Those markets with initial buildout deadlines in 2004 that we have not yet met are identified in the table under the heading Business Cricket Business Operations Wireless Licenses above. We intend to either raise additional resources to fund the buildout or sell or otherwise transfer the material licenses for which we have not yet satisfied the buildout requirement before the deadline. However, we cannot assure you that we will be able to raise the resources or sell or transfer the licenses before the deadline. Failure to comply with the FCC s buildout requirements could cause the revocation of some of our licenses or the imposition of fines and/or other sanctions. No adjustments have been recorded in the financial statements regarding the potential inability to develop the wireless licenses that expire in the near future. Any subsequent expiration of these licenses could have a material adverse effect on our financial position and results of operations.

The CDMA Technology That We Use May Become Obsolete, Which Would Limit Our Ability to Compete Effectively

We have employed digital wireless communications technology based on CDMA technology. Other digital technologies may ultimately prove to have greater capacity or features and be of higher quality than CDMA. If another technology becomes the preferred industry standard or proves to be more economical, we may be at a competitive disadvantage, and competitive pressures may require us to change our digital technology at substantial cost. We may not be able to respond to those pressures or implement new technology on a timely basis, or at an acceptable cost. If CDMA technology becomes obsolete at some time in the future, and we are unable to effect a cost-effective migration path, it could materially and adversely affect our business and financial condition.

Item 2. ***Properties***

Leap currently leases space in two office buildings in San Diego, California for our headquarters, totaling approximately 99,065 square feet, which we use for sales, marketing, product development, engineering and administrative purposes. We also currently lease approximately 7,679 square feet of office space in Alexandria, Virginia, which we use for information technology development and administrative purposes. We also have office leases in Carlsbad and San Diego, California that we have surrendered back to the landlords.

As of February 1, 2003, Cricket had leased regional offices in Tulsa, Oklahoma; Albuquerque, New Mexico; and Nashville, Tennessee, which range from approximately 13,600 square feet to approximately 21,300 square feet. Cricket has 24 additional office leases in its individual markets that range from 2,508 square feet to 14,426 square feet. Cricket also leases approximately 80 retail stores in its markets ranging in size from 698 square feet to 4,100 square feet and leases approximately 10 kiosks for retail sales as well as 3 retail storage spaces ranging in size from 100 square feet to 200 square feet. In addition, we currently lease approximately 2,944 cell site locations and 27 switch and warehouse facilities that range in size from approximately 3,000 square feet to approximately 20,000 square feet. We do not own any real property.

As we complete most of the buildout of existing Cricket markets and if we elect to build out additional markets, and as capital resources permit, we may need to lease additional or substitute office facilities, retail stores, cell sites and switch and warehouse facilities.

Item 3. ***Legal Proceedings***

On April 13, 2003 (the Petition Date), Leap, Cricket Communications, Inc. and substantially all of their subsidiaries filed voluntary petitions for relief under Chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court for the Southern District of California (jointly administered as Case Nos. 03-03470-LA to 03-03535-LA). Each of the debtors will continue to manage its properties and operate its business as a debtor-in-possession under the jurisdiction of the Bankruptcy Court and in accordance with Sections 1107(a) and 1108 of Chapter 11. As a result of the Chapter 11 filing, attempts to collect, secure or enforce remedies with respect to most pre-petition claims against the debtors are subject to the automatic stay provisions of Section 362(a) of Chapter 11. The Chapter 11 cases are discussed in greater detail in Item 1. Business Proceedings Under Chapter 11 of the Bankruptcy Code above and in Note 2 to the consolidated financial statements included in Item 8 of this report.

In connection with Leap s acquisitions of wireless licenses in Buffalo and Syracuse from MCG PCS, Inc., MCG asserted that, based on the prices of certain wireless licenses auctioned by the FCC in Auction 35, it was entitled to a purchase price adjustment pursuant to the terms of the purchase agreement for such licenses. The matter was submitted to binding arbitration and the arbitrator determined that the seller was entitled to a purchase price adjustment of $39.8 million payable immediately in cash, or, in Leap s sole discretion, approximately 21 million shares of Leap common stock. In August 2002, Leap paid the purchase price adjustment to MCG by issuing 21,020,431 shares of its common stock, representing approximately 36% of Leap s outstanding common stock, and approximately 28% of Leap common shares on a fully diluted basis, following such issuance. The issuance of common stock to the seller without the consent of the lenders under Cricket s senior secured vendor credit facilities constituted an event of default under Cricket s senior secured vendor credit facilities. In addition, because the award was payable immediately, Leap did not obtain stockholder approval of the issuance as required by the rules of the Nasdaq National Market. Leap s common stock was delisted from the Nasdaq National Market on December 11, 2002. See Risk Factors Our Ability to Raise Capital and the Liquidity of Our Stock May Be Adversely Affected By the Fact That Our Common Stock Is Not Listed On the Nasdaq National Market System or Any Other Major Exchange. In December 2002, Leap paid approximately $1.4 million to MCG in satisfaction of the arbitrator s award regarding attorneys fees, expenses and costs.

From April 1999 to the date of sale on June 2, 2000, Leap owned 100% of Smartcom, S.A. (Smartcom), a Chilean corporation that operates a nationwide wireless network in Chile. On June 2, 2000, Leap completed the sale of Smartcom to Endesa S.A. (Endesa). Leap has a $35.0 million promissory note receivable from Endesa that is subject to a right of set-off to secure indemnification claims under the purchase agreement. Endesa has asserted claims of up to approximately $48.7 million against Leap and its wholly-owned subsidiary, Inversiones Leap Wireless Chile, S.A., for breach of representations and warranties under the purchase agreement and has notified Leap that it is offsetting the claims against the entire unpaid balance of the note. The note matured on June 2, 2001, and Leap expects it to remain unpaid until the issues related to the claims are resolved. Proceedings relating to the resolution of these claims are currently pending before the Fourth District Court of Appeals for the State of California (instituted at the trial level on June 29, 2001) and in the 19th Civil Court of Santiago in the Republic of Chile (instituted on June 29, 2001). Leap believes Endesa s claims are without merit, and Leap is contesting Endesa s claims. Leap has caused its wholly owned Chilean subsidiary to be merged with and into Leap. Therefore, the $35.0 million note is owned by Leap, and the claims of Endesa are against Leap. Management of Leap believes that the ultimate outcome of this matter will not have a material adverse effect on its consolidated financial position or results of operations.

Between December 5, 2002 and February 7, 2003, nine securities class action lawsuits were filed against Leap Wireless International, Inc., Harvey P. White, Leap s Chairman and Chief Executive Officer, Susan G. Swenson, Leap s President, Chief Operating Officer and director, and Manford Leonard, Leap s Vice President and Controller, in the United States District Court for the Southern District of California on behalf of all persons who purchased or otherwise acquired Leap common stock from February 11, 2002 through July 24, 2002, referred to in this report as the Class Period. The nine lawsuits are captioned: (1) Solomon Schechter v. Leap, White, Swenson and Leonard, Case No. 02-CV-02385-J (JAH); (2) James Threkeld v. Leap, White, Swenson and Leonard, Case No. 2455-J (POR); (3) Jack Hearn v. Leap, White, Swenson and Leonard, Case No. 02-CV-2515-BTM (LSP); (4) Jonathan Crowell, Trustee of the Cornelia I. Crowell Trust v. Leap, White, Swenson, Leonard and Barad, Case No. 02-CV-2514-JM (LAB); (5) Bridget Gillen v. Leap, White, Swenson and Leonard, Case No. 02-CV-2545-J (JFS); (6) Andrew Bennet v. Leap, White, Swenson and Leonard, Case No. 02-CV-2563-IEG (JFS); (7) Reginald J. Hudson v. Leap, White, Swenson and Leonard, Case No. 03-CV-0072-K (JAH); (8) Cyril Marsden v. Leap, White, Swenson and Leonard, Case No. 03-CV-0158-H (JAH); and (9) Gary Kissinger v. Leap, White, Swenson and Leonard, Case No. 03-CV-0257-JM (RBB). These lawsuits are virtually identical and each alleges that the defendants violated Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, and Rule 10b-5 promulgated thereunder, by issuing a series of material misrepresentations to the market during the Class Period, thereby artificially inflating the price of Leap s common stock. Plaintiffs allege that defendants concealed the deteriorated value of Leap s wireless licenses by relying upon a fraudulent impairment test of those assets, which resulted in a gross and material overstatement of the value of Leap s assets in its financial statements. The actions seek an unspecified amount of damages, plus costs and expenses related to bringing the actions. On March 14, 2003, the Court entered plaintiffs stipulation and order for the appointment of lead plaintiffs and approval of lead plaintiffs selection of lead counsel and ordered the cases consolidated under the caption In re Leap Wireless International, Inc. Securities Litigation, Case No. 02-CV-2388J (AJB). No class has yet been certified in these actions. Leap believes that it has strong defenses to the claims raised by these lawsuits. However, if Leap does not prevail, the amounts involved could have a material adverse effect on the Company s consolidated financial position or results of operations.

On February 24, 2003, plaintiff Steven Zawalick filed a purported derivative action on behalf of Leap against Morgan Stanley & Co., Inc., Donaldson Lufkin Jenrette Securities Corporation, Bear Stearns & Co., Inc., ABN AMRO Incorporated and Credit Suisse First Boston Corp., each of whom were initial purchasers in the private placement of Leap debt securities on February 23, 2000, and nominally against Leap, in the Supreme Court of the State of New York, Case No. 03600591. The complaint alleges that the sales were disguised brokerage transactions and that the investment banking firms charged excessive brokerage fees in violation of New York General Obligations Law Section 5-531, which limits the fees payable to loan brokers. The complaint seeks compensatory damages, costs and fees in connection with bringing suit, and other remedies. Leap believes the allegations are without merit and intends to defend the case vigorously.

Leap is often involved in various claims arising in the course of business, seeking monetary damages and other relief. The amount of the liability, if any, from such claims cannot be determined with certainty. However, in the opinion of Leap s management, the ultimate liability for such claims will not have a material adverse effect on Leap s consolidated financial position, results of operations or cash flows.

Item 4. ***Submission of Matters to a Vote of Security Holders***

No matters were submitted to a vote of the stockholders, through the solicitation of proxies or otherwise, during the fourth quarter of fiscal 2002.

Table of Contents

PART II

Item 5. ***Market for Registrant s Common Equity and Related Stockholder Matters***

(a) Market Price of and Dividends on the Registrant s Common Equity and Related Stockholder Matters

Leap s common stock, $.0001 par value per share, currently trades on the OTC Bulletin Board under the symbol LWIN.OB. Prior to December 11, 2002, our common stock was listed on the Nasdaq National Market under the symbol LWIN. High and low sales prices for Leap common stock for specified quarterly periods are set forth below.

	High($)	Low($)
Calendar Year 2001		
First Quarter	46.69	20.50
Second Quarter	36.78	21.31
Third Quarter	33.15	12.70
Fourth Quarter	21.51	13.51
Calendar Year 2002		
First Quarter	23.10	3.77
Second Quarter	11.39	1.05
Third Quarter	1.87	0.18
Fourth Quarter	0.61	0.12

On April 10, 2003, the last reported sale price of Leap s common stock on the OTC Bulletin Board was $0.17 per share. As of April 10, 2003, there were 58,704,192 shares of common stock outstanding held by approximately 1,604 holders of record.

On December 11, 2002, our common stock was delisted from the Nasdaq National Market and began trading on the OTC Bulletin Board. Our common stock was delisted because:

- we did not comply with Nasdaq s shareholder approval requirements before issuing shares to MCG;
- we did not comply with the net tangible assets or stockholders equity requirement for continued listing; and
- we did not meet the minimum bid price requirement for continued listing as a result of our common stock having traded below $1.00 per share for 30 consecutive trading days.

Leap has never paid or declared any cash dividends on its common stock and does not intend to pay dividends on its common stock in the foreseeable future. The terms of the indenture governing the high-yield notes issued in Leap s February 2000 units offering restrict its ability to declare or pay dividends. These limitations are subject to a number of important qualifications and exceptions contained in the indenture. Leap intends to retain any earnings to fund its growth, debt service requirements and other corporate needs.

Table of Contents

Securities Authorized For Issuance Under Equity Compensation Plans

The following table provides information as of December 31, 2002 with respect to compensation plans under which Leap s common stock is authorized for issuance.

Plan Category	Number of securities to be issued upon exercise of outstanding options	Weighted-average exercise price of outstanding options	Number of securities remaining available for future issuance under equity compensation plans
Equity compensation plans approved by security holders	7,076,966	$ 13.46	2,686,452
Equity compensation plans not approved by security holders(1)	1,325,290	15.15	1,174,710
Total	8,402,256	$ 13.73	3,861,162

(1) Includes shares authorized for issuance under Leap s 2001 Non-Qualified Stock Option Plan, which allows the Board of Directors to grant non-qualified options to selected employees, directors and consultants to purchase shares of Leap common stock. A total of 2,500,000 shares of common stock have been reserved for issuance under the 2001 plan. Non-qualified stock options are exercisable at a price not less than 85% of the fair market value of the common stock on the date of grant. Generally, options vest over a four-year period and are exercisable for up to ten years from the grant date. The number of options that may be granted to officers and directors of Leap under the 2001 plan is limited.

(b) Recent Sales of Unregistered Securities

None.

Table of Contents

Item 6. ***Selected Financial Data***

SELECTED CONSOLIDATED FINANCIAL DATA

(In thousands, except per share data)

These tables should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations, and the audited consolidated financial statements included elsewhere in this report.

	Year Ended December 31,			Period From September 1, 1999 to December 31,	Year Ended August 31,	
	2002	2001	2000	1999	1999	1998
Statement of Operations Data(1):						
Revenues:						
Service revenues	$ 567,694	$ 215,917	$ 40,599	$ 6,733	$ 3,619	$
Equipment revenues	50,781	39,247	9,718	39	288	
Total revenues	618,475	255,164	50,317	6,772	3,907	
Operating expenses:						
Cost of service (exclusive of items shown separately below)	(181,404)	(94,510)	(20,821)	(2,409)	(1,355)	
Cost of equipment	(252,344)	(202,355)	(54,883)	(7,760)	(2,455)	
Selling and marketing	(122,092)	(115,222)	(31,709)	(4,293)	(1,197)	
General and administrative	(185,915)	(152,051)	(85,640)	(15,051)	(27,548)	(23,888)
Depreciation and amortization	(287,942)	(119,177)	(24,563)	(6,926)	(5,824)	
Impairment of long-lived assets	(16,323)					
Impairment of goodwill	(26,919)					
Total operating expenses	(1,072,939)	(683,315)	(217,616)	(36,439)	(38,379)	(23,888)
Gains on sale of wireless licenses	364	143,633				
Operating loss	(454,100)	(284,518)	(167,299)	(29,667)	(34,472)	(23,888)
Equity in net loss of and write-down of investments in and loans receivable from unconsolidated wireless operating companies		(54,000)	(78,624)	(23,077)	(127,542)	(23,118)
Interest income	6,345	26,424	48,477	764	2,505	273
Interest expense	(229,740)	(178,067)	(112,358)	(12,283)	(10,356)	
Foreign currency transaction gains (losses), net	50	(1,257)	13,966	(8,247)	(7,211)	
Gain on sale of wholly-owned subsidiaries			313,432		9,097	
Gain on issuance of stock by unconsolidated wireless operating company			32,602		3,609	
Gain on sale of unconsolidated wireless operating company	39,518					
Other income (expense), net	(3,051)	8,443	1,913	(3,336)	(243)	
Income (loss) before income taxes and extraordinary items	(640,978)	(482,975)	52,109	(75,846)	(164,613)	(46,733)

Income taxes	(23,821)	(322)	(47,540)			
Income (loss) before extraordinary items	(664,799)	(483,297)	4,569	(75,846)	(164,613)	(46,733)
Extraordinary loss on early extinguishment of debt			(4,737)			
Net loss	$ (664,799)	$ (483,297)	$ (168)	$ (75,846)	$ (164,613)	$ (46,733)
Basic net income (loss) per common share:						
Income (loss) before extraordinary items	$ (14.91)	$ (14.27)	$ 0.18	$ (4.01)	$ (9.19)	$ (2.65)
Extraordinary loss			(0.19)			
Net loss	$ (14.91)	$ (14.27)	$ (0.01)	$ (4.01)	$ (9.19)	$ (2.65)
Diluted net income (loss) per common share:						
Income (loss) before extraordinary items	$ (14.91)	$ (14.27)	$ 0.14	$ (4.01)	$ (9.19)	$ (2.65)
Extraordinary loss			(0.15)			
Net loss	$ (14.91)	$ (14.27)	$ (0.01)	$ (4.01)	$ (9.19)	$ (2.65)

Table of Contents

	Year Ended December 31, 2002	Year Ended December 31, 2001	Year Ended December 31, 2000	Period From September 1, 1999 to December 31, 1999	Year Ended August 31, 1999	Year Ended August 31, 1998
Shares used in per share calculations(2):						
Basic	44,591	33,861	25,398	18,928	17,910	17,648
Diluted	44,591	33,861	32,543	18,928	17,910	17,648

	As of December 31, 2002	As of December 31, 2001	As of December 31, 2000	As of December 31, 1999	As of August 31, 1999	As of August 31, 1998
Balance Sheet Data(1)						
Cash and cash equivalents	$ 100,860	$ 242,979	$ 338,878	$ 44,109	$ 26,215	$
Working capital (deficit)(3)	(2,144,420)	189,507	602,373	50,361	6,587	(14,789)
Restricted cash equivalents and investments	25,922	40,755	65,471	20,550		
Total assets	2,163,702	2,450,895	1,647,407	360,765	335,331	157,752
Long-term debt(3)		1,676,845	897,878	303,818	221,812	
Total stockholders equity (deficit)	(296,786)	358,440	583,258	10,892	70,900	142,963

(1) For the fourth quarter of the year ended August 31, 1999, the period from September 1, 1999 to December 31, 1999, and the first six months of the year ended December 31, 2000, the financial results of Smartcom are included in the selected consolidated financial data as a result of our acquisition of the remaining 50% interest in Smartcom that we did not already own on April 19, 1999. Before the fourth quarter of the year ended August 31, 1999, our investment in Smartcom was accounted for using the equity method of accounting. We subsequently divested our entire interest in Smartcom on June 2, 2000.

(2) Refer to Notes 3 and 5 of the Consolidated Financial Statements for an explanation of the calculation of basic and diluted net loss per common share.

(3) We have classified the principal and interest balances outstanding under long-term debt as short-term obligations in the consolidated balance sheet as of December 31, 2002, as a result of our existing defaults of the underlying agreements. See Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Credit Facilities and Other Financing Arrangements, and Notes 2 and 6 of the consolidated financial statements for an explanation of our debt obligations.

Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis is based upon our financial statements as of the dates and for the periods presented in this report. You should read this discussion and analysis in conjunction with our financial statements and related notes.

Background

Leap conducts operations through its subsidiaries. Leap has no independent operations or sources of operating revenue other than through dividends, if any, from its operating subsidiaries. Cricket Communications, Inc. is Leap s subsidiary that operates the Cricket business, together with subsidiaries of Cricket and Leap that hold assets that are used in the Cricket business or that hold assets pledged as security under Cricket s senior secured vendor credit facilities. Leap, Cricket Communications, Inc. and the other Cricket companies have filed for protection under Chapter 11 of the United States Bankruptcy Code (Chapter 11). The Cricket companies continue to operate together as a wireless communications carrier that provides innovative, affordable, simple wireless services designed to accelerate the transformation of wireless service into a mass consumer product.

On April 13, 2003 (the Petition Date), Leap, Cricket and substantially all of their subsidiaries filed voluntary petitions for relief under Chapter 11 in the United States Bankruptcy Court for the Southern District of California (jointly administered as Case Nos. 03-03470-LA to 03-03535-LA). Each of the debtors continues to manage its properties and operate its business as a debtor-in-possession under the jurisdiction of the Bankruptcy Court and in accordance with Sections 1107(a) and 1108 of Chapter 11. As of the Petition Date, most actions to collect pre-petition indebtedness are stayed and most other contractual obligations against the debtors may not be enforced. In addition, under Chapter 11 we may assume or reject pre-petition executory contracts and unexpired nonresidential real property leases. Parties affected by these rejections may file claims with the Bankruptcy Court in accordance with Chapter 11. Substantially all pre-petition liabilities are subject to settlement under a plan of reorganization to be voted upon by required creditors and approved by the Bankruptcy Court. Information regarding the Chapter 11 proceedings appears in Item 1. Business Proceedings Under Chapter 11 of the Bankruptcy Code.

We expect that we will implement, upon the effective date of a plan of reorganization, fresh start reporting under the provisions of the American Institute of Certified Public Accountants Statement of Position 90-7 Financial Reporting by Entities in Reorganization Under the Bankruptcy Code. It is expected that fresh start accounting will be applied at that time, due to the following expected circumstances:

- the reorganization value of the emerging entity immediately before the date of confirmation is expected to be less than the total of all post-petition liabilities and allowed claims; and

- the holders of existing voting shares immediately before confirmation are expected to receive less than 50 percent of the voting shares of the emerging entity on a non-temporary basis.

Under SOP 90-7:

- our reorganization value will be allocated to the fair value of our assets and any portion of the reorganization value that cannot be attributed to specific tangible or identified intangible assets will be reported as an intangible asset referred to as reorganization value in excess of amounts allocable to identifiable assets ;

- our liabilities will be stated at present values of amounts to be paid;

- our accumulated deficit will be eliminated; and

- our new equity will be issued according to the plan.

We anticipate that the adoption of SOP 90-7 and fresh start reporting will have a material effect on our financial statements. As a result, our financial statements published for periods following the effective date of the plan will not be comparable with those published before the plan is effective.

Leap and the Cricket companies are highly leveraged. At December 31, 2002, we had debt totaling $2,210.0 million, including $1,541.3 million, net of discount, of debt under Cricket s senior secured vendor credit facilities. Each of the Cricket companies is a borrower or guarantor under the senior secured vendor credit facilities of Cricket. Cricket is currently in default under the senior secured vendor credit facilities because it has failed to pay principal and interest and has failed to comply with other covenants under those facilities. See Liquidity and Capital Resources.

As a result of Cricket s default on its senior secured vendor credit facilities, we have classified the principal and accrued interest balances outstanding under those facilities and amounts payable to Lucent, Nortel and Ericsson for the purchase of equipment and services as short-term obligations in the consolidated balance sheet as of December 31, 2002. In addition, we have classified the principal and interest balances outstanding under our senior and senior discount notes, U.S. government financing and other financing arrangements as short-term obligations in the consolidated balance sheet as of December 31, 2002 as a result of our Chapter 11 filing in April 2003, which constituted an event of default of the underlying agreements. Unamortized debt discounts and debt issuance costs of $187.1 million at December 31, 2002 may be subject to accelerated amortization or immediate expense if the Chapter 11 proceedings result in a significant modification of the amounts payable under any of these credit facilities. The discount associated with our senior secured vendor credit facilities arose from the recognition of the origination fees due under the facilities. The discount associated with our senior notes arose from the amount of proceeds allocated to the warrants issued in conjunction with the notes. The discount associated with our senior discount notes arose from the difference between the face value of the notes and the net proceeds received, plus the amount of proceeds allocated to the warrants issued in conjunction with the notes. The discount associated with our U.S. government financing and other financing arrangement arose from the difference between the stated interest rates and management s best estimate of the prevailing market interest rates at the time we incurred the debt. The discounts for all of our long-term debt are amortized to interest expense over the terms of the respective credit agreements using the effective interest method.

Because of Cricket s existing defaults under the senior secured vendor credit facilities and the fact that Cricket has been unable to raise new funds which would enable it to repay such amounts, the substantial risk that the stock of the Cricket companies has no value to Leap, and the substantial risk that Leap s existing stockholders will lose all of their value in Leap common stock in connection with any reorganization, we recorded an estimated impairment charge during the year ended December 31, 2002 equal to our remaining goodwill balance of $26.9 million. The goodwill resulted from Leap s June 2000 acquisition of the remaining interest in Cricket Communications Holdings that it did not already own.

In August 2002, Leap issued 21,020,431 shares of common stock to MCG PCS, Inc. pursuant to a binding arbitration award. Our issuance of these shares caused a change in our ownership under Internal Revenue Code Section 382. Accordingly, there will be a significant annual limitation on our ability to use our net operating loss and credit carryforwards. There is also likely to be a change in our ownership as defined under Internal Revenue Code Section 382 in connection with our Chapter 11 filing, which may result in a further limitation on our ability to use our net operating loss and credit carryforwards. If there is a significant elimination or reduction of our outstanding indebtedness as a result of the Chapter 11 filing, we will realize a significant amount of cancellation of indebtedness income. Although we should not be required to recognize such cancellation of indebtedness income for tax purposes, we will be required to reduce our net operating loss and credit carryforwards by the amount of such income realized. If the amount of the cancellation of indebtedness income exceeds the amount of our net operating loss and credit carryforwards, we may be required to reduce other tax attributes (e.g., tax basis in our assets) by the amount of such excess. The Chapter 11 filing may result in the merger of certain subsidiaries and the transfer of assets among subsidiaries. If these mergers and transfers cannot be structured in a tax-efficient manner, we may owe significant income taxes as a result.

On December 11, 2002, Leap s common stock was delisted from the Nasdaq National Market and began trading on the OTC Bulletin Board. See Risk Factors Our Ability to Raise Capital and the Liquidity of Our Stock May Be Adversely Affected By the Fact That Our Common Stock Is Not Listed On the Nasdaq National Market System or Any Other Major Exchange.

Our independent accountants have included a going concern paragraph in their audit report on our audited 2002 financial statements. See Risk Factors In Their Audit Report, Our Independent Accountants Express Substantial Doubt About Our Ability to Continue as a Going Concern.

Acquisitions, Exchanges and Sales of Wireless Licenses

During the year ended December 31, 2002, we completed the exchange of wireless licenses with an aggregate net carrying value of $7.7 million. Because we did not receive or give any cash consideration as part of the transaction, the licenses received were recorded at the net carrying value of the licenses exchanged.

Leap was the winning bidder for 22 wireless licenses covering approximately 24.1 million potential customers in the FCC s Auction 35. The former holder of the licenses challenged the validity of Auction 35 in court, and the licenses were never granted to us. In December 2002, we accepted an offer from the FCC and withdrew from our commitment and right to purchase the licenses on which we were the successful bidder. In connection with that withdrawal, we received a refund of $10.5 million in payments we had made to the FCC relating to Auction 35, which was in addition to the $74.2 million received earlier in the year. We have applied for a refund of the remaining approximately $268,000 of payments we made to the FCC in connection with Auction 35.

Pegaso

Leap was a founding shareholder and made investments in and loans to Pegaso Telecomunicaciones, S.A. de C.V., a company providing wireless service in Mexico, totaling $120.5 million. In the fourth quarter of fiscal 2001, Leap discontinued its use of the equity method of accounting for Pegaso and ceased recognizing its share of Pegaso s losses because its investment in and loans to Pegaso had been reduced to zero on its books of account.

In September 2002, Leap completed the sale of its 20.1% interest in Pegaso to Telefónica Móviles, S.A. At the closing, Leap received cash proceeds of approximately $22.2 million for the sale of its shares. In October 2002, Leap received approximately $15.8 million of additional cash from a loan repayment related to the sale. In connection with the sale, Leap was released from its obligations under a $33 million guarantee to Qualcomm of Pegaso s outstanding working capital loans from Qualcomm, by delivering to Qualcomm Leap s rights under the warrants it acquired in connection with the guarantee. Under the senior secured vendor credit facilities, Leap was obligated to set aside or contribute to the Cricket companies approximately $25.8 million of the proceeds from the sale of Pegaso. Because of the financial condition and expected restructuring of Leap and Cricket, however, Leap did not make the set asides and contributions and instead retained the funds at Leap. Leap s failure to contribute or set aside those amounts was a breach of contract by Leap and an additional event of default under Cricket s senior secured vendor credit facilities.

Smartcom Disposition

On June 2, 2000, Leap completed the sale of Smartcom to Endesa S.A. in exchange for gross consideration of approximately $381.5 million, consisting of $156.8 million in cash, three promissory notes totaling $143.2 million, subject to post closing adjustments, the repayment of intercompany debt due to Leap by Smartcom totaling $53.3 million, and the release of cash collateral posted by Leap securing Smartcom indebtedness of $28.2 million. Leap recognized a gain on sale of Smartcom of $313.4 million before related income tax expense of $34.5 million during the quarter ended June 30, 2000. In February 2001, Leap sold one of the promissory notes, with an original principal amount of $58.2 million plus accrued interest, to a third party for $60.7 million. In June 2001, Endesa repaid $47.5 million of principal and accrued interest for the second promissory note. The remaining promissory note of $35.0 million is subject to a right of set-off to secure indemnification claims under the purchase agreement. Endesa has asserted claims of up to approximately $48.7 million against Leap for breach of representations and warranties under the purchase agreement and has notified Leap that it is offsetting the claims against the unpaid balance of the note. The note matured on June 2, 2001 and Leap expects it to remain unpaid until the issues related to the claims are resolved. Leap has caused its wholly owned Chilean subsidiary to be merged with and into Leap. Therefore, the $35.0 million note is owned by Leap, and the claims of Endesa are against Leap. Leap believes that Endesa s claims are without merit, and Leap is contesting Endesa s claims. Management of Leap believes that the ultimate outcome of this matter will not have a material adverse effect on its consolidated financial position, results of operations or cash flows.

Presentation of Foreign Wireless Operating Companies

We have recognized our share of net earnings or losses of our foreign operating companies on a three-month lag. The financial statements of Smartcom are included in our consolidated financial statements from June 1, 1999 to March 31, 2000 as a result of our acquisition in April 1999 of the remaining 50% of Smartcom that we did not already own and our sale of 100% of Smartcom on June 2, 2000. The accounts of Smartcom were consolidated using a three-month lag, and as a result of the sale in June 2000, the results of Smartcom for April and May 2000 have been reflected in accumulated deficit during the year ended December 31, 2000. Until September 10, 2002, we owned 20.1% of the outstanding capital stock of Pegaso. Until the fourth quarter of 2001, we accounted for our interest in Pegaso under the equity method of accounting. In the fourth quarter of 2001, Leap discontinued its use of the equity method of accounting for Pegaso and ceased recognizing its share of Pegaso s losses because its investment in and loans to Pegaso had been written down to zero.

Critical Accounting Policies and Estimates

Our discussion and analysis of our results of operations and liquidity and capital resources are based on our consolidated financial statements which have been prepared in accordance with accounting principles generally accepted in the United States of America. These principles require us to make estimates and judgments that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses. On an ongoing basis, we evaluate our estimates and judgments, including those related to revenue recognition and the valuation of long-lived and intangible assets. We base our estimates on historical and anticipated results and trends and on various other assumptions that we believe are reasonable under the circumstances, including assumptions as to future events. These estimates form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. By their nature, estimates are subject to an inherent degree of uncertainty. Actual results may differ from our estimates. We believe that the following significant accounting policies and estimates involve a higher degree of judgment and complexity than others.

Revenues and Cost Recognition

For our Cricket business, revenues include wireless services and the sale of handsets and accessories. Wireless services are provided on a month-to-month basis and, through September 2002, were generally paid in advance. Revenues from wireless services are recognized as services are rendered. Amounts received in advance are recorded as deferred revenue. Commencing in October 2002, we no longer include a first month of service with the handset purchase, and new customers pay for their service in arrears. We recognize revenues for customers who pay in arrears only after payment is received. Commencing in September 2002, we also currently charge customers for service plan changes, and commencing in November 2002, we began charging activation fees. Revenues from these fees are deferred and recorded to revenue over the estimated average life of these customers of 12 months. Direct costs associated with customer activations are expensed as incurred.

In August 2002, we launched a new service called Cricket Talk that bundles caller ID, call waiting, three-way calling, 500 minutes of available long distance and virtually unlimited local service for a fixed monthly fee. This new bundled service is designed to more effectively compete with other telecommunications providers. Beginning in November 2002, new customers on our Cricket Talk plan are required to maintain active service for 12 months or be subject to an early termination fee, which is recognized as revenue when received.

Cost of service generally includes direct costs and related overhead, excluding depreciation and amortization, of operating our networks. Equipment revenues arise from the sale of handsets and accessories. Revenues and related costs from the sale of handsets are recognized when customers activate service. Revenues and related costs from the sale of accessories are recognized at the point of sale. The costs of handsets and accessories sold are recorded in cost of equipment. Handsets sold to third-party dealers and distributors are recognized as inventory until they are sold to and activated by customers. Amounts due from third-party dealers and distributors for handsets are recorded as deferred revenue upon shipment by us and are recognized as equipment revenues when customers activate service. Sales incentives offered without charge to customers and volume-based incentives paid to our third-party dealers and distributors are recognized as a reduction of revenue when the related service or equipment revenue is recognized. Customers have limited rights to return handsets and accessories based on time and/or usage. For our stores, handset returns are accepted within 30 days of purchase or 30 minutes of usage, whichever occurs first. The return policies of our third-party dealers and distributors are frequently more liberal than ours. Management believes that it can reliably estimate returns upon activation, which historically have been insignificant. We record an estimate for returns of handsets and accessories at the time of recognizing revenue.

Handsets sold through our third-party dealers and distributors are subject to a mark-up retained by the third-party dealer or distributor, which is not included in our equipment revenues. We generate service revenues from monthly service and features, including call waiting, caller ID and voicemail. Service revenue is also generated from the customer s usage of long distance minutes and directory assistance purchased from Cricket.

We record sales incentives offered without charge to customers, including discounts, coupons and rebates, and volume-based sales incentives offered to our third-party dealers and distributors, as a reduction in revenue and as a liability, based on estimates of the amounts ultimately expected to be paid or refunded to our customers and third-party dealers and distributors. We believe we have sufficient, relevant history to reliably estimate the liability for sales incentives. However, if the amount of future sales incentives could not be reasonably and reliably estimated, we would be required to recognize a liability for the maximum potential amount of the sales incentive.

We have cooperative advertising programs with our third-party dealers and distributors that provide that we will refund part of the cost of certain qualified advertising by third-party dealers and distributors of our Cricket products and wireless services. This advertising must meet qualitative criteria, and minimum amounts must be spent on the advertisements. The programs require the third-party dealers and distributors to provide evidence of the nature of the advertising performed that includes our products and wireless service as well as the actual costs incurred. We generally record our costs for cooperative advertising programs as selling and marketing expenses.

Wireless Licenses

Wireless licenses are recorded at cost (i.e. the purchase price paid for the licenses at the time of acquisition, together with other capitalized costs including legal costs and microwave relocation costs). Through December 31, 2001, wireless licenses were amortized using the straight-line method over their estimated useful lives upon commencement of commercial service, generally 40 years. We adopted Statement of Financial Accounting Standard No. 142 Goodwill and Other Intangible Assets on January 1, 2002. We determined that our wireless licenses met the definition of indefinite-lived intangible assets under SFAS No. 142 as the technology that we use to provide wireless service is not expected to change significantly in the foreseeable future, and the wireless licenses may be renewed every ten years for a nominal fee, provided that we continue to meet the service and geographic coverage provisions required by the FCC. Therefore, upon adoption of SFAS No. 142 we ceased amortizing our wireless license costs. Wireless licenses, net, totaled $718.2 million at January 1, 2002. During the three months ended March 31, 2002, we recorded an income tax expense of $15.9 million to increase the valuation allowance related to our net operating loss carryforwards in connection with the adoption of SFAS No. 142. Because of the uncertainty as to the timing of the reversal of the deferred tax liabilities related to the amortization of wireless licenses for tax purposes, the deferred tax liabilities can no longer be used as a source of taxable income to support the realization of a corresponding amount of deferred tax assets.

The majority of our wireless licenses were acquired with the intention of being built out and operated, although the timing of such buildouts is dependent upon our ability to access additional capital and other factors. Wireless licenses not currently in use under our 40 Market Plan may be sold or exchanged for other wireless licenses that may provide us with greater strategic opportunities. Wireless licenses classified as to be disposed of are licenses that are part of pending license sales or exchanges that are considered probable of being closed in their current form within one year of the balance sheet dates. Wireless licenses to be disposed of are carried at the lower of carrying value and fair value less costs to sell. At December 31, 2002 and 2001, wireless licenses to be disposed of were not significant.

Our wireless licenses include provisions that require us to satisfy buildout deadlines and geographic coverage requirements within five years and/or ten years after the original license grant date. These initial requirements are met when adequate service is offered to at least one-quarter or one-third of the population of the licensed service area, depending on the type of license. Because we obtained many of our wireless licenses from third parties subject to existing buildout requirements, some of our wireless licenses have initial buildout deadlines in 2004. We have met the buildout requirements in all markets where we currently offer Cricket service. However we have not satisfied the minimum buildout requirements for all material wireless licenses that we intend to use in the Cricket business or sell or transfer to third parties, and we currently do not have the financial resources to complete such buildouts. See Item 1. Business Cricket Business Operations Wireless Licenses for a detailed list of those markets with initial buildout deadlines in 2004 that we have not yet met. We intend to either raise additional resources to fund the buildout or sell or otherwise transfer the material licenses for which we have not yet satisfied the buildout requirement before the deadline. However, we cannot assure you that we will be able to raise the resources or sell or transfer the licenses before the deadline. Failure to comply with these buildout requirements could cause the revocation of some of our licenses or the imposition of fines and/or other sanctions. No adjustments have been recorded in the financial statements regarding the potential inability to develop the wireless licenses that expire in the near future. Any subsequent expiration of these licenses could have a material adverse effect on our financial position and results of operations.

Goodwill

Goodwill represents the excess of the purchase price and related costs over the fair value assigned to the net tangible and identifiable intangible assets of businesses acquired. Through December 31, 2001, goodwill was amortized on a straight-line basis over its estimated useful life, generally 20 years. In connection with the adoption of SFAS No. 142, we ceased amortization of goodwill effective January 1, 2002. As of January 1, 2002, we had goodwill of $26.9 million resulting from our June 2000 acquisition of the remaining interest in Cricket Communications Holdings, Inc. that we did not already own.

Impairment of Indefinite-Lived Intangible Assets (Wireless Licenses and Goodwill)

We assess potential impairment to our indefinite-lived intangible assets, including goodwill and wireless licenses, annually as required by SFAS No. 142 Goodwill and Other Intangible Assets and when there is evidence that events or changes in circumstances indicate that an impairment condition may exist. Our estimates of the fair values of our wireless licenses are based primarily on available market prices, including successful bid prices in FCC auctions and selling prices observed in wireless license transactions. When the fair value of an asset is less than its carrying value, an impairment loss is recognized. Any required impairment loss would be recorded as a reduction in the carrying value of the related asset and charged to results of operations.

SFAS No. 142 requires wireless licenses classified as indefinite-lived intangible assets to be tested for impairment as of January 1, 2002 and at least annually thereafter. During the three months ended March 31, 2002, we completed our transitional impairment review of our wireless licenses and concluded that no impairment existed at the date of adoption. In addition, as of June 30, September 30 and December 31, 2002,

Table of Contents

we tested our wireless licenses for impairment. The fair values of the wireless licenses were greater than their carrying values on the dates tested; therefore, no impairment loss was recognized on the dates tested. Based on the current difficulties being experienced within the telecommunications and wireless industries, prices observed in future FCC auctions or selling prices observed in future wireless license transactions could decline significantly and, as a result, the value of our wireless licenses could be subject to significant impairment losses in the future. The outcome of our Chapter 11 proceedings may also affect the carrying value of our wireless licenses as a result of fresh start accounting.

Wireless licenses are usually granted in blocks of 10, 15 or 30 megahertz (MHz). In general (though there are frequently exceptions created by the supply and demand for individual markets), licenses in geographic areas with higher population density have higher valuations than those for areas with lower population density. As described in more detail above, the total population covered by our portfolio of wireless licenses using 2002 population estimates provided by Claritas Inc. was approximately 53.1 million. A common metric used to value wireless licenses is derived from dividing the FCC auction or private sale price of a wireless license by the product of the license s MHz and the area s population. This metric is commonly referred to as $/MHz pop. Based on the prices we paid for our wireless licenses at auction and in private sales together with other capitalized costs (including legal costs and microwave relocation costs) (*i.e.*, their carrying value), the population of the geographic areas in which we own wireless licenses and the MHz of each license, our wireless licenses are carried at approximately $0.93/MHz pop.

Management s estimates of the fair values of our wireless licenses were supported by valuations performed by an independent third party appraiser as of June 30 and December 31, 2002. The independent valuations of our licenses were made on the basis that an orderly sale of the licenses could be achieved.

The independent third party appraiser utilized the market comparable method to value our wireless licenses. This method indicates the fair value of an asset by comparing it to publicly available information regarding the pricing of similar assets, generally through transactions, and applying appropriate discounts or premiums based upon subsequent market and industry developments. The independent third party appraiser developed a range of estimates of $/MHz pop using several different analytical processes. The most conservative of the analytical processes for the valuation as of June 30, 2002 was based on a reference to the median successful bid of comparable licenses auctioned by the FCC in Auction 35, less a 30% discount. The most conservative of the analytical processes for the valuation as of December 31, 2002 was based on a reference to the average selling price of wireless licenses in a December 19, 2002 acquisition of wireless licenses by Verizon Wireless, less a 30% discount. This value was approximately 50%, on an aggregate basis, of the average successful bid for comparable licenses auctioned by the FCC in Auction 35. The processes employed by the independent third party appraiser yielded a range of fair market value estimates of our wireless licenses as of June 30, 2002 and December 31, 2002, and in each case the lowest estimate was above $0.93/MHz pop. For purposes of comparison only, the first point where our licenses would have been impaired would result from using a discount between 59% and 60% to the average successful bid of comparable wireless licenses auctioned by the FCC in Auction 35.

Management s estimates of the fair value of our wireless licenses, as well as the valuations provided by the independent third party appraiser described above, also were consistent with the most recent estimates of independent securities analysts who covered us during the relevant periods.

The outcome of our Chapter 11 proceedings may also adversely affect the carrying value of our wireless licenses in the future as a result of fresh start accounting, which may require a different standard for determining the carrying value of these assets than the one required by the impairment analysis. In addition, as part of our Chapter 11 proceedings, we will develop an analysis of the value of our wireless licenses in a liquidation scenario, where a rushed sale over several months is required, instead of an orderly sale as required by SFAS No. 142. We expect the value of our wireless licenses in the liquidation analysis to be less than their carrying value at December 31, 2002.

We adopted Emerging Issues Task Force, or EITF, Issue No. 02-07 Unit of Accounting for Testing Impairment of Indefinite-Lived Intangible Assets in completing our impairment reviews. EITF Issue No. 02-07 requires that separately recorded indefinite-lived intangible assets be combined into a single unit of accounting for purposes of testing impairment if they are operated as a single asset and, as such, are essentially inseparable from one another. Management concluded that our wireless licenses should be combined into a single unit of accounting based on the assertion that the wireless licenses as a group represent the highest and best use of the assets. This assertion is based on management s plans and its belief that it is unlikely that a substantial portion of the licenses will be sold separately.

During the three months ended March 31, 2002, we completed our transitional impairment review of our goodwill required upon the adoption of SFAS No. 142 and concluded that no impairment existed at the date of adoption. Because of Cricket s existing defaults under the senior secured vendor credit facilities and the fact that Cricket has been unable to raise new funds which would enable it to repay such amounts, the substantial risk that the stock of the Cricket companies has no value to Leap, and the substantial risk that Leap s existing stockholders will lose all of their value in Leap common stock in connection with any restructuring, we recorded an estimated impairment charge during the three months ended September 30, 2002 equal to the remaining goodwill balance of $26.9 million.

Impairment of Long-Lived Assets (Property and Equipment and Other Intangible Assets)

We adopted SFAS No. 144 Accounting for the Impairment or Disposal of Long-Lived Assets on January 1, 2002. In accordance with SFAS No. 144, we assess potential impairments to our long-lived assets, including property and equipment and other intangible assets, when there is evidence that events or changes in circumstances indicate that the carrying value may not be recoverable. An impairment loss is recognized when the undiscounted cash flows expected to be generated by an asset (or group of assets) is less than its carrying value. Any required impairment loss would be measured as the amount by which the asset s carrying value exceeds its fair value, and would be recorded as a reduction in the carrying value of the related asset and charged to results of operations.

At June 30, September 30 and December 31, 2002, we tested our long-lived assets for potential impairment. Because our long-lived assets do not have identifiable cash flows that are largely independent of other asset groupings, we compared our total estimated undiscounted future cash flows, excluding interest costs, to the carrying value of our long-lived and indefinite-lived assets. The total undiscounted future cash flows, excluding interest, exceeded the total carrying value of our long-lived assets and indefinite-lived assets at the dates tested. As a result, our long-lived assets were not deemed to be impaired at those dates. Our estimated future operating results are based on estimates of key operating metrics, including customer growth, customer churn, average monthly revenue per customer and costs per gross additional customer. If we do not achieve these metrics and, as a result, do not achieve our planned operating results, this may have a significant adverse effect on our estimated undiscounted future cash flows and may ultimately result in a substantial impairment charge related to our long-lived assets.

The outcome of our Chapter 11 proceedings will likely also adversely affect the carrying value of our long-lived assets as a result of fresh start accounting, which requires a different standard for determining the carrying value of these assets than the standard in place prior to fresh start accounting. We expect the fair value of our long-lived assets in fresh start accounting to be substantially less than their carrying value at December 31, 2002. In addition, as part of our Chapter 11 proceedings, we will develop an analysis of the value of our long-lived assets in a liquidation scenario, where a rushed sale over several months is required, instead of an orderly sale as required by SFAS No. 144. We expect the value of our long-lived assets in the liquidation analysis to be substantially less than their carrying value at December 31, 2002.

Management believes that it is appropriate to evaluate the recoverability of its property and equipment and other long-lived assets based on the cash flows and carrying value of the assets of the entire company, because it is unable to accurately attribute cash flows to lower level asset groupings which generate cash flows independently from other asset groupings, such as individual markets. Had lower level asset groupings and related cash flows been available for use in this evaluation, it is possible that the undiscounted cash flow test results may have been significantly different.

During the year ended December 31, 2002, we recorded impairment charges of $6.4 million and $9.9 million for certain of our property and equipment and intangible assets, respectively, which assets are not currently being used in our business and are not expected to be used in the future.

Recent Accounting Pronouncements

In June 2001, the FASB issued SFAS No. 143 Accounting for Asset Retirement Obligations. SFAS No. 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. It applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and/or normal operation of a long-lived asset. We are required to adopt SFAS No. 143 on January 1, 2003. We have not yet determined the impact that the adoption of SFAS No. 143 will have on our consolidated financial position or our results of operations.

In April 2002, the FASB issued SFAS No. 145 Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections. SFAS No. 145 requires that gains and losses from the extinguishments of debt be classified as extraordinary items only if they meet the criteria in Accounting Principles Board Opinion No. 30 Reporting the Results of Operations Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Recurring Events and Transactions. Applying the provisions of Opinion No. 30 will distinguish transactions that are part of an entity s recurring operations from those that are unusual and infrequent and meet criteria for classification as an extraordinary item. We adopted SFAS No. 145 on January 1, 2003, at which time we reclassified the $4.7 million extraordinary loss on the early extinguishment of debt incurred during the year ended December 31, 2000 to other income/ expense.

In June 2002, the FASB issued SFAS No. 146 Accounting for Costs Associated with Exit or Disposal Activities. SFAS No. 146 requires that a liability associated with an exit or disposal activity be recognized at its fair value when the liability has been incurred, and supercedes EITF Issue No. 94-3 Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity. Under EITF Issue No. 94-3, certain exit costs were accrued upon management s commitment to an exit plan, which was generally before an actual liability had been incurred. We adopted SFAS No. 146 on January 1, 2003. The adoption of SFAS No. 146 did not have a significant impact on our consolidated financial position or our results of operations.

In December 2002, the FASB issued SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure. SFAS 148 amends SFAS No. 123, Accounting for Stock-Based Compensation, and provides new transition alternatives for companies adopting the fair value method of accounting for stock-based compensation prescribed by SFAS No. 123 and changes certain disclosure requirements for companies electing to continue applying the APB 25 intrinsic value method. We currently do not apply the fair value method of accounting for stock-based compensation. Therefore, the adoption of SFAS No. 148 on December 31, 2002 did not have a material impact on our consolidated financial position or our results of operations.

In November 2002, the EITF issued Issue No. 00-21, Accounting for Revenue Arrangements with Multiple Deliverables. This issue addresses determination of whether an arrangement involving more than one deliverable contains more than one unit of accounting and how arrangement consideration should be measured and allocated to the separate units of accounting. EITF Issue No. 00-21 will be effective for revenue arrangements entered into in fiscal periods beginning after June 15, 2003. The Company may elect to report the change in accounting as a cumulative-effect adjustment. We have not yet determined the impact that the adoption of EITF Issue No. 00-21 will have on our consolidated financial position or our results of operations.

In November 2002, the FASB issued Interpretation No. 45, Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others. FIN No. 45 elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees that it has issued. It also clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. The initial recognition and initial measurement provisions of the interpretation are applicable on a prospective basis to guarantees issued or modified after December 31, 2002 and the disclosure requirements in this interpretation are effective for financial statements of interim or annual periods ending after December 15, 2002. We currently do not maintain guarantees that fall within the scope of FIN No. 45. Therefore, the adoption of FIN No. 45 did not have a material impact on our consolidated financial position, results of operations or footnote disclosures.

Results of Operations

The following table presents condensed consolidated statement of operations data for the periods indicated (in thousands):

	Year Ended December 31,		
	2002	2001	2000
Revenues:			
Service revenues	$ 567,694	$ 215,917	$ 40,599
Equipment revenues	50,781	39,247	9,718
Total revenues	618,475	255,164	50,317
Operating expenses:			
Cost of service (exclusive of items shown separately below)	(181,404)	(94,510)	(20,821)
Cost of equipment	(252,344)	(202,355)	(54,883)
Selling and marketing	(122,092)	(115,222)	(31,709)
General and administrative	(185,915)	(152,051)	(85,640)
Depreciation and amortization	(287,942)	(119,177)	(24,563)
Impairment of long-lived assets	(16,323)		
Impairment of goodwill	(26,919)		
Total operating expenses	(1,072,939)	(683,315)	(217,616)
Gains on sale of wireless licenses	364	143,633	
Operating loss	(454,100)	(284,518)	(167,299)
Equity in net loss of unconsolidated wireless operating company		(54,000)	(78,624)
Interest income	6,345	26,424	48,477
Interest expense	(229,740)	(178,067)	(112,358)
Foreign currency transaction gains (losses), net	50	(1,257)	13,966
Gain on sale of wholly-owned subsidiary			313,432
Gain on issuance of stock by unconsolidated wireless operating company			32,602
Gain on sale of unconsolidated wireless operating company	39,518		
Other income (expense), net	(3,051)	8,443	1,913
Income (loss) before income taxes and extraordinary items	(640,978)	(482,975)	52,109
Income taxes	(23,821)	(322)	(47,540)
Income (loss) before extraordinary items	(664,799)	(483,297)	4,569
Extraordinary loss on early extinguishment of debt			(4,737)
Net loss	$ (664,799)	$ (483,297)	$ (168)

Year Ended December 31, 2002 Compared to Year Ended December 31, 2001

At December 31, 2002, customers of our Cricket service rose to approximately 1,512,000, compared to approximately 1,119,000 at December 31, 2001. We added approximately 393,000 net customers in 2002 primarily due to increased penetration in our existing markets. Gross customer additions were approximately 1,090,000 during the year ended December 31, 2002. In February 2002, we launched our Buffalo, New York market. At December 31, 2002, the total potential customer base covered by our networks in 40 markets across the U.S. was approximately 25.5 million.

During the year ended December 31, 2002, we experienced slower customer growth rates than planned. We believe the slower customer growth rates were due in large part to the current economic slowdown, increased competition, and concerns over the potential negative outcomes of our announcement of and participation in restructuring discussions. Other wireless carriers have also reported slower customer growth rates compared to prior periods. Furthermore, the slowing customer growth and our restructuring efforts have caused us to reduce our focus on rapid growth and as a result we have reduced marketing efforts and focused on retaining quality customers. These efforts may have had a negative impact on customer growth rates.

We have seen a continuation of competitive pressures in the wireless telecommunications market causing some major carriers to offer plans with increasingly large bundles of minutes of use at increasingly lower prices which may compete with the Cricket predictable and virtually unlimited calling plan. These competitive plans appear to be promotional in nature, and our competitors generally appear to be moving back to higher pricing. However, the trend towards lower pricing across the industry has continued and may continue to impact the Cricket service differentiation. In August 2002, we launched a new service named Cricket Talk that bundles certain features, 500 minutes of available long distance and virtually unlimited local service for a fixed monthly fee to more effectively compete with other telecommunications providers. Since its launch, Cricket Talk has represented a significant portion of our gross customer additions.

During the three months ended March 31, 2002, we experienced a significant increase in the occurrence of fraud, which has been an issue in the wireless industry, over that experienced in the preceding year. The three types of fraud that affected our business are credit card fraud, subscription fraud and distribution fraud. With the exception of some normal delays in the reporting of credit card misuse, which are not material, we believe that the financial costs of these activities are reflected in our financial results for the applicable period. We believe we significantly reduced fraudulent activity after taking aggressive steps to implement processes, systems and controls designed to detect fraud and screen out customers and dealers who engage in fraudulent activity.

The removal of potentially fraudulent customers from our customer base, an increase in selling and marketing expenses of $2.6 million, an increase in sales incentives of $6.9 million, lower gross customer additions (due in part to the slow down in the economy), and the increased price competition described above, had a significant negative impact on our operating metrics, including cost per gross addition (CPGA) and churn, during the second quarter of 2002. The removal of potentially fraudulent customers from our customer base impacted CPGA because we deduct customers who do not make payment on their first monthly bill from our gross customer additions and, as a result, we incur the loss on the sale of a handset without an offsetting gross customer addition. CPGA is an operating measure that is calculated as the loss recognized on the sale of handsets to new customers plus sales and marketing expenses associated with the acquisition of new customers, divided by gross customer additions. In addition, during the second quarter of 2002, the rate of customer churn increased to 4.6% from 3.2% in the first quarter of 2002. We believe that we experienced continuing reduction of potentially fraudulent customers during the third and fourth quarters of 2002.

We have addressed the increases in CPGA and customer churn experienced during the second quarter of 2002 by:

- revising our advertising and messaging strategies;
- introducing our new Cricket Talk service plan that we believe improves the competitive value of our service offering;
- modifying our initial service offer to new customers to eliminate the inclusion of the first month of service in the purchase price of a handset;
- decreasing incentive programs that reduce the amount of revenue recognized;

raising handset pricing; and

making changes to our distribution strategies.

As a result, CPGA decreased in both the third and fourth quarters of 2002. In addition, customer churn levels for the third and fourth quarters of 2002 decreased to 4.5% and 4.0%, respectively.

During the year ended December 31, 2002, service revenues increased $351.8 million, or 163%, and equipment revenues increased $11.5 million, or 29%, compared to the year ended December 31, 2001. The increase in service revenues related to an increase in average subscribers of 167% for the year ended December 31, 2002 compared to the year ended December 31, 2001. The increase in equipment revenues is primarily due to a 29% increase in the number of handsets sold during the year ended December 31, 2002 compared to the year ended December 31, 2001. In addition, commencing in October 2002, we no longer include a first month of service with the handset purchase, and new customers pay for their service in arrears. As a result, we no longer allocate a portion of the handset price to service revenues. Service revenues for customers who pay in arrears were 2% and 6% of total service revenues for the year and three months ended December 31, 2002, respectively, and are expected to be approximately 25% of total revenues for the first quarter of 2003. We also expect that service and equipment revenues for the Cricket business will continue to increase during 2003 as a result of expected increases in penetration in our existing markets.

During the year ended December 31, 2002, cost of service increased $86.9 million, or 92%, compared to the year ended December 31, 2001. The increase is primarily attributable to the increase in average subscribers which resulted in a higher volume of traffic over our networks, which in turn resulted in a $35.8 million increase in costs paid to telecommunications service providers for the use of phone lines, switches and long distance. This was combined with $19.1 million in increased engineering costs and a $19.4 million increase in cell site lease costs. We expect cost of service for the Cricket business to continue to increase during 2003 as we add new customers and increase traffic over our networks.

Cost of equipment increased $50.0 million, or 25%, primarily due to an increase in handsets sold of 29%, compared to the year ended December 31, 2001. We sell our handsets to customers and third-party dealers and distributors at prices below cost to grow and maintain our customer base, which is typical of wireless providers. During the year ended December 31, 2002, $186.6 million of our total losses on equipment sales of $201.6 million were directly related to acquiring new customers. We expect cost of equipment for the Cricket business will decrease during 2003 due to slower customer growth rates and removal of the effects of fraud.

For the year ended December 31, 2002, selling and marketing expenses increased $6.9 million, or 6%, compared to the year ended December 31, 2001. The increase in selling and marketing expense is primarily due to higher payroll related costs during the year ended December 31, 2002. For the year ended December 31, 2002, $121.9 million of our selling and marketing expenses were directly related to acquiring new customers. Selling and marketing expenses for the year ended December 31, 2002 consisted primarily of advertising and public relations and related payroll expenses. We expect selling and marketing expenses for the Cricket business to decline slightly in 2003 as the Company continues to focus on cash conservation.

For the year ended December 31, 2002, general and administrative expenses increased $33.9 million, or 22%, compared to the year ended December 31, 2001. Included in this increase were a $24.6 million increase in call center costs and an $11.6 million increase in billing costs, as a result of an increase in the number of customers. We expect general and administrative expense for the Cricket business to remain relatively stable during 2003 as we have launched all of the markets under our 40 Market Plan.

For the year ended December 31, 2002, depreciation and amortization increased $168.8 million, or 142%, compared to the year ended December 31, 2001. The increase in depreciation and amortization resulted from a larger base of network equipment in service compared to the prior year. In connection with the adoption of SFAS No. 142, we ceased amortization of goodwill and our wireless licenses commencing January 1, 2002. Amortization of goodwill and wireless licenses totaled $6.2 million for the year ended December 31, 2001. At December 31, 2002, management reassessed the estimated useful lives of our major wireless network assets. As a result, we have revised the remaining depreciable lives of our network assets commencing on January 1,

2003. We expect depreciation to decrease during 2003 as a result of this reassessment, offset by the effects of additional equipment being placed in service to satisfy subscriber traffic growth in existing markets.

The gain on sale of unconsolidated wireless operating companies of $39.5 million related entirely to the gain recognized on the sale of our 20.1% interest in Pegaso to Telefónica.

During the year ended December 31, 2002, we recorded impairment charges of $6.4 million and $9.9 million for certain of our property and equipment and intangible assets, respectively, which assets are not currently being used in our business and are not expected to be used in the future.

Because of Cricket s existing defaults under the senior secured vendor credit facilities and the fact that Cricket has been unable to raise new funds which would enable it to repay such amounts, the substantial risk that the stock of the Cricket companies has no value to Leap, and the substantial risk that Leap s existing stockholders will lose all of their value in Leap common stock in connection with any restructuring, we recorded an estimated impairment charge during the three months ended September 30, 2002 equal to the remaining goodwill balance of $26.9 million. The goodwill resulted from our June 2000 acquisition of the remaining interest in Cricket Communications Holdings that we did not already own.

For the year ended December 31, 2002, interest income decreased $20.1 million, or 76%, compared to the year ended December 31, 2001. The decrease in interest income related to decreased average cash and cash equivalents and investment balances as we continue to incur operating losses and negative cash flows from operations.

For the year ended December 31, 2002, interest expense increased $51.7 million, or 29%, compared to the year ended December 31, 2001. The increase in interest expense related primarily to interest on increased vendor financing of our wireless networks. We are currently in default under the vendor financing agreements. See Liquidity and Capital Resources.

For the year ended December 31, 2002, income tax expense increased $23.5 million, compared to the year ended December 31, 2001. The increase in income tax expense is related primarily to a one-time income tax expense of $15.9 million for the three months ended March 31, 2002 to increase the valuation allowance related to our net operating loss carryforwards in connection with ceasing amortization of wireless licenses pursuant to our adoption of SFAS No. 142. In addition, we incurred $7.7 million of income tax expense resulting from an increase in the deferred tax liability related to the amortization of wireless licenses.

Year Ended December 31, 2001 Compared to Year Ended December 31, 2000

At December 31, 2001, customers of our Cricket service rose to approximately 1,119,000, compared to approximately 190,000 at December 31, 2000. We added approximately 929,000 customers in 2001 due to the launch of 29 new markets and increased penetration in our existing markets. Gross customer additions were approximately 1,118,000 during the year ended December 31, 2001.

During the year ended December 31, 2001, service revenues increased $175.3 million, or 432%, and equipment revenues increased $29.5 million, or 304%, compared to the year ended December 31, 2000. The increase in service and equipment revenues over the prior year related to the increase in our customer base from the launch of network service in new markets and increased penetration in our existing markets.

During the year ended December 31, 2001, cost of service increased $73.7 million, or 354%, and cost of equipment increased $147.5 million, or 269%, compared to the year ended December 31, 2000. We sell our handsets to customers and third-party dealers and distributors at prices below cost to grow and maintain our customer base, which is typical of wireless providers. During the year ended December 31, 2001, $156.4 million of our losses on equipment sales were directly related to acquiring new Cricket customers.

For the year ended December 31, 2001, selling and marketing expenses increased $83.5 million, or 263%, compared to the year ended December 31, 2000. For the year ended December 31, 2001, general and administrative expenses increased $66.4 million, or 78%, compared to the year ended December 31, 2000. The increase in selling and marketing and general and administrative expenses was due primarily to higher expenses associated with the development and launch of network service in additional U.S. markets, Cricket customer acquisition efforts and the development of new service offerings. For the year ended December 31, 2001, $112.5 million of our selling and marketing expenses were directly related to acquiring new Cricket customers. Selling and marketing expenses for the year ended December 31, 2001 consisted primarily of advertising and public relations and related payroll expenses. General and administrative expenses for the year ended December 31, 2001 included customer service and billing expenses, costs for business development associated with negotiations for and acquisitions of wireless licenses, government relations, public reporting and investor relations, legal expenses and development of our wireless information service offerings. In addition, we incurred stock-based compensation expense of $5.5 million and $13.9 million during the years ended December 31, 2001 and 2000, respectively, primarily related to the exchange of stock options from our June 2000 acquisition of the remaining interest in Cricket Communications Holdings that we did not already own.

Depreciation and amortization increased $94.6 million, or 385%, during the year ended December 31, 2001 compared to the year ended December 31, 2000. The increase in depreciation and amortization resulted from a larger base of equipment and wireless licenses in service compared to the prior year. In connection with the adoption of SFAS No. 142, we ceased amortization of goodwill with a net carrying value of $26.9 million commencing January 1, 2002. We had recorded $1.5 million of goodwill amortization in 2001.

Gains on sale of wireless licenses for the year ended December 31, 2001 consisted of $136.3 million from the sale of a portion of our wireless licenses in the Salt Lake City and Provo, Utah basic trading areas and $7.4 million related to the exchange of certain wireless licenses.

During the year ended December 31, 2001, our equity share in the net loss of unconsolidated wireless operating company was $54.0 million and related only to Pegaso. During the year ended December 31, 2000, our equity share in the net loss of unconsolidated wireless operating companies was $78.6 million and related to Pegaso and Chase Telecommunications Holdings before March 2000. In 2001, we invested an additional $20.5 million in Pegaso by purchasing convertible subordinated notes. In the fourth quarter of 2001, we discontinued the use of the equity method of accounting for Pegaso and ceased recognizing our share of Pegaso s losses as the carrying value of our investment in and loans to Pegaso have been reduced to zero.

For the year ended December 31, 2001, interest income decreased $22.1 million, or 45%, compared to the year ended December 31, 2000. The decrease in interest income related to decreased average cash and cash equivalents and investment balances as we continue to incur operating losses and negative cash flows from operations.

For the year ended December 31, 2001, interest expense increased $65.7 million, or 58%, compared to the year ended December 31, 2000. The increase in interest expense related primarily to interest on our senior notes and senior discount notes issued in our February 2000 units offering, increased vendor financing of our wireless networks, seller financing of wireless license acquisitions, and amortization of debt issuance costs and loan origination fees to interest expense under the effective interest method.

During the year ended December 31, 2001, foreign currency transaction losses primarily reflected unrealized exchange losses recognized by Leap on cash balances and payables as a result of changes in the exchange rate between the U.S. dollar and the Chilean peso. During the year ended December 31, 2000, foreign currency transaction gains primarily reflected unrealized exchange gains recognized by Smartcom on U.S. dollar denominated loans as a result of changes in the exchange rate between the U.S. dollar and the Chilean peso.

Other income of $8.4 million, net, for the year ended December 31, 2001 included $4.9 million related to the reversal of previously recorded interest expense upon the cancellation of indebtedness to Qualcomm in August 2001 and a $4.2 million fee we received related to a terminated wireless license purchase agreement. For the year ended December 31, 2000, we reported an extraordinary loss on early extinguishment of debt of $4.7 million, consisting of the write-off of unamortized debt issuance costs in connection with the repayment of amounts outstanding under our credit agreement with Qualcomm in February 2000 and the repayment of bank loans due to the sale of Smartcom in June 2000.

Consolidation of Smartcom

As a direct result of the consolidation of Smartcom, we recorded $21.5 million and $0.1 million of additional service and equipment revenues, respectively, $7.0 million and $21.8 million of additional cost of service and cost of equipment, respectively, $9.5 million of additional selling and marketing, $11.5 million of additional general and administrative expenses, $10.0 million of additional depreciation and amortization, $9.0 million of additional net interest expense, $10.8 million of additional foreign currency transaction gains and $0.3 million of additional net other income, in each case for the year ended December 31, 2000.

Liquidity and Capital Resources

As discussed above in Item 1 of this report, Leap, Cricket and substantially all of their subsidiaries filed voluntary petitions for relief under Chapter 11 on April 13, 2003 and are now operating as debtors-in-possession under the jurisdiction of the Bankruptcy Court and in accordance with Section 1107(a) and 1108 of Chapter 11. As a result of the Chapter 11 filing, each of Leap and the Cricket companies are operating independently, pursuant to separate operating and capital budgets, and cash flows are not being shared between Leap and Cricket. As a result, we have presented liquidity and capital resources information for each of Leap and the Cricket companies separately below, rather than on a consolidated basis.

The matters discussed under this caption Liquidity and Capital Resources, to the extent that they relate to future events or expectations, may be significantly affected by the Chapter 11 proceedings at Leap and the Cricket companies. The Chapter 11 proceedings involve various restrictions on business activities, limitations on financings and the need to obtain Bankruptcy Court approval for various matters, and may result in uncertainty as to relationships with employees, vendors, suppliers, customers and others with whom Leap or the Cricket companies conduct or may seek to conduct business.

Leap

As of December 31, 2002, Leap had available a total of approximately $86.5 million in unrestricted cash, cash equivalents and short-term investments. In addition, as of December 31, 2002, Leap had restricted cash equivalents and investments of $14.2 million, consisting primarily of U.S. government debt securities that have been pledged to provide for the payment of scheduled interest payments on Leap s senior notes through April 2003. Our Chapter 11 filing resulted in an automatic stay of payment of the April 2003 interest payments on Leap s senior notes. However, Leap intends to file a motion with the Bankruptcy Court for authority to make such payments.

Under Leap s operating budget, Leap currently expects to incur approximately $3.1 million for general corporate overhead and other expenses in the first quarter of 2003 and in each subsequent quarter in which the Chapter 11 proceedings continue. These expenses may be funded only from existing cash at Leap. Any plan of reorganization in the Chapter 11 proceedings will include a budget for Leap that may vary from the amounts described herein.

At December 31, 2002, Leap had $225 million ($176.3 million, net of discount) principal outstanding under its 12.5% senior notes and approximately $485.0 million ($407.0 million, net of discount) in accreted value of principal and accrued interest outstanding under its 14.5% senior discount notes. The senior notes and senior discount notes ceased accruing interest as of the Petition Date, and all payments of principal and interest due under the notes are stayed during the pendency of the Chapter 11 proceedings. At December 31, 2002, Leap also had $8.4 million ($8.1 million, net of discount) payable under a secured promissory note. In January 2003, Leap chose not to make a payment of principal and accrued interest that was due on the note, which constituted an event of default. Leap has received a notice of default from the note holder and a notice of acceleration of the principal and accrued interest under the note. That note is secured by a pledge of the stock of a Leap subsidiary that owns certain wireless licenses not used in the Cricket business, and the note holder has notified Leap that it intends to foreclose on the collateral. Any such foreclosure action is currently prohibited by the automatic stay under Chapter 11.

Leap has a $35.0 million promissory note receivable from Endesa related to Leap s sale of Smartcom, subject to a right of set-off to secure indemnification claims under the purchase agreement. Endesa has asserted claims of up to approximately $48.7 million against Leap and its wholly owned subsidiary, Inversiones Leap Wireless Chile, S.A., for breach of representations and warranties under the purchase agreement and has notified Leap that it is offsetting the claims against the entire unpaid balance of the note. The note matured on June 2, 2001, and Leap expects it to remain unpaid until the issues related to the claims are resolved. Leap has caused its wholly owned Chilean subsidiary to be merged with and into Leap. Therefore, the $35.0 million note is owned by Leap, and the claims of Endesa are against Leap. Proceedings relating to the resolution of these claims are currently pending in both Chile and the U.S. Leap believes Endesa s claims are without merit and is contesting Endesa s claims.

The Cricket Companies

As of December 31, 2002, the Cricket companies had a total of approximately $94.6 million in cash, cash equivalents and short-term investments, all subject to security interests in favor of Cricket s senior secured vendor creditors. In addition, Cricket had restricted cash equivalents of $11.8 million as of December 31, 2002 that have been pledged to secure operating obligations. On April 14, 2003, Cricket filed a first day motion with the Bankruptcy Court and was granted an interim order authorizing the use of its cash collateral pursuant to a budget approved by the informal committee of senior secured vendor creditors and its financial advisor. A hearing to consider approval of the order on a final basis has been scheduled for May 7, 2003.

Based on current and expected levels of operations, Cricket s expected operating and capital expense budgets, and the relief from further payments of principal, interest or fees under outstanding indebtedness during the pendency of the Chapter 11 proceedings, Cricket anticipates that cash flows from operations, together with cash on hand available for use under the cash collateral order, will be adequate to meet its anticipated cash requirements for at least the next 12 months. Under Cricket s current capital expenditure budget, the Cricket companies expect to spend approximately $50 million for capital expenditures during the 12 month period beginning January 1, 2003. The substantial majority of these capital expenditures are expected to be incurred to satisfy subscriber traffic growth in existing markets. Cricket s operating and capital expense budgets are subject to approval by the Bankruptcy Court, and actual expenditures may differ from the amounts described above.

At December 31, 2002, Cricket had $1,579.2 million ($1,541.3 million, net of discount) outstanding under its senior secured vendor credit facilities. The senior secured vendor credit facilities ceased accruing interest as of the Petition Date. All payments of principal, interest and fees payable under the senior secured vendor facilities are stayed during the pendency of the Chapter 11 proceedings. In addition, at December 31, 2002, the Cricket companies had $55.1 million payable to Lucent, Nortel and Ericsson for the purchase of equipment and services, and $81.2 million ($76.6 million, net of discount) of U.S. government financing secured by certain wireless licenses used in the Cricket business, as well as substantial general unsecured trade and other obligations. The discount applied to our U.S. government financing was calculated with reference to the difference between management s best estimate of the prevailing market interest rate on the date of issuance of the notes and the interest rate stated on the notes.

For goods and services furnished after the Petition Date, the Cricket companies intend to maintain normal and regular trade terms with their vendors, suppliers and customers during the pendency of the Chapter 11 proceedings. However, there can be no assurance that vendors and suppliers will continue to provide normal trade terms or credit on terms acceptable to the Cricket companies, if at all, or that customers will continue to do business with the Cricket companies. In the event that cash flows are not sufficient to meet future cash requirements, the Cricket companies may be required to reduce planned capital expenditures, sell assets or seek additional financing. The Cricket companies can provide no assurances that reductions in planned capital expenditures or proceeds from asset sales would be sufficient to cover shortfalls in available cash or that additional financing would be available or, if available, offered on acceptable terms.

Further, if the Cricket companies are unable to implement a plan of reorganization or if implementation of a plan of reorganization is substantially delayed, the Cricket companies may experience difficulty in acquiring and retaining customers which could, in turn, result in significant revenue declines that would adversely impact Cricket s liquidity and jeopardize the ability of the Cricket companies to continue to fund their operations. If Cricket becomes unable to use cash collateral or a plan of reorganization is not confirmed or does not become effective, the Cricket companies may be forced to liquidate under applicable provisions of the United States Bankruptcy Code. There can be no assurance of the level of recovery the Cricket senior secured creditors would receive in such a liquidation.

Certain Contractual Obligations, Commitments and Contingencies

The three tables below summarize in a single location information at December 31, 2002 regarding certain future minimum contractual obligations for the next five fiscal years and thereafter for each of (i) Leap and its consolidated subsidiaries, (ii) Leap and (iii) the Cricket companies.

The following amounts reflect pre-petition obligations as of December 31, 2002. Under Chapter 11, actions to collect pre-petition indebtedness, as well as most other pending litigation, are stayed and other contractual obligations against us may not be enforced. As a result, all payments of principal and pre-petition accrued interest due under Leap s and Cricket s long-term debt, including the senior secured vendor credit facilities, are stayed during the pendency of the Chapter 11 proceedings, and ceased accruing interest as of the Petition Date. Under Chapter 11, the rights and interests of our various creditors may be substantially altered. In addition, under Chapter 11 we may assume or reject executory contracts, including lease obligations, which will affect the amount of our liabilities post-bankruptcy. Therefore, the commitments shown in the tables below do not reflect our actual cash outlays in future periods.

Leap and its Consolidated Subsidiaries (in thousands):

		Year Ending December 31,					
	Total	**2003**	**2004**	**2005**	**2006**	**2007**	**Thereafter**
Vendor credit facilities(1)	$1,579,183	$1,579,183	$	$	$	$	$
Long-term debt(2)	984,051	19,605	21,092	22,504	24,998	2,852	893,000
Operating leases	209,759	57,603	57,817	53,754	24,424	5,110	11,051
Chase earn-out(3)	41,000				41,000		
Total	$2,813,993	$1,656,391	$78,909	$76,258	$90,422	$7,962	$904,051

(1) Amounts shown for Cricket s senior secured vendor credit facilities do not include $55.1 million in amounts payable to Lucent, Nortel and Ericsson for the purchase of equipment and services. At December 31, 2002, Cricket was in default under its vendor financing agreements and, as a result, Cricket s outstanding debt under these credit facilities could have been accelerated. Therefore, the amounts outstanding under these credit facilities are shown as current in this table. See Credit Facilities and Other Financing Arrangements below.

(2) Amounts shown for Leap s and its consolidated subsidiaries long-term debt, including amounts due pursuant to Leap s senior notes and senior discount notes, U.S. government financing and notes payable, do not include interest other than interest capitalized under the facilities.

(3) Our March 2000 acquisition of substantially all of the assets of Chase Telecommunications Holdings, Inc. included contingent earn-out payments of up to $41.0 million (plus certain expenses) based on the earnings of the business acquired during the fifth full year following the closing of the acquisition. This obligation was assigned to and assumed by Cricket in 1999. However, Leap was not released from its obligation to Chase Telecommunications Holdings at the time of the assignment.

Table of Contents

Leap (in thousands):

		Year Ending December 31,					
	Total	**2003**	**2004**	**2005**	**2006**	**2007**	**Thereafter**
Long-term debt(1)	$902,890	$1,883	$2,018	$2,163	$2,319	$1,507	$893,000
Operating leases	6,094	2,322	2,212	1,560			
Total	$908,984	$4,205	$4,230	$3,723	$2,319	$1,507	$893,000

(1) Amounts shown for Leap s long-term debt, including amounts due pursuant to Leap s senior notes and senior discount notes, and notes payable, do not include interest other than interest capitalized under the facilities. See Credit Facilities and Other Financing Arrangements below.

The contingent earn-out obligation described in footnote 3 to the table above captioned Leap and its Consolidated Subsidiaries (in thousands): was assigned to and assumed by Cricket in 1999 and is not reflected in the Leap table above. However, Leap was not released from its obligation to Chase Telecommunications Holdings at the time of the assignment.

The Cricket Companies (in thousands):

		Year Ending December 31,					
	Total	**2003**	**2004**	**2005**	**2006**	**2007**	**Thereafter**
Vendor credit facilities(1)	$1,579,183	$1,579,183	$	$	$	$	$
Long-term debt(2)	81,161	17,722	19,074	20,341	22,679	1,345	
Operating leases	203,665	55,281	55,605	52,194	24,424	5,110	11,051
Chase earn-out(3)	41,000				41,000		
Total	$1,905,009	$1,652,186	$74,679	$72,535	$88,103	$6,455	$11,051

(1) Amounts shown for Cricket s senior secured vendor credit facilities do not include $55.1 million in amounts payable to Lucent, Nortel and Ericsson for the purchase of equipment and services. At December 31, 2002, Cricket was in default under its vendor financing agreements and, as a result, Cricket s outstanding debt under these credit facilities could have been accelerated. Therefore, the amounts outstanding under these credit facilities are shown as current in this table. See Credit Facilities and Other Financing Arrangements below.

(2) Amounts shown for the Cricket companies long-term debt, including U.S. government financing, do not include interest, other than interest capitalized under the facilities, and do not include payments under Leap s senior notes and senior discount notes, which are guaranteed by Cricket Communications Holdings, Inc.

(3) Leap s March 2000 acquisition of substantially all of the assets of Chase Telecommunications Holdings, Inc. included contingent earn-out payments of up to $41.0 million (plus certain expenses) based on the earnings of the business acquired during the fifth full year following the closing of the acquisition. This obligation was assigned to and assumed by Cricket in 1999. However, Leap was not released from its obligation to Chase Telecommunications Holdings at the time of the assignment.

Credit Facilities and Other Financing Arrangements

Units Offering. As a result of Leap s Chapter 11 filing, Leap is currently in default under the indenture governing its senior notes and senior discount notes, the terms of which are described below, and the obligations under those notes have been accelerated. At December 31, 2002, Leap had $225 million ($176.3 million, net of discount) principal outstanding under its 12.5% senior notes and approximately $485.0 million ($407.0 million, net of discount) in accreted value of principal and accrued interest outstanding under its 14.5% senior discount notes. The sen