



LEAP 2008 ANNUAL REVIEW

FINANCIALS:)

CONSOLIDATED BALANCE SHEETS

	December 31,	
	2008	2007
<i>(In thousands, except share data)</i>		
Assets		
Cash and cash equivalents	\$ 357,708	\$ 433,337
Short-term investments	238,143	179,233
Restricted cash, cash equivalents and short-term investments	4,780	15,550
Inventories	126,293	65,208
Other current assets	51,948	38,099
Total current assets	778,872	731,427
Property and equipment, net	1,842,718	1,316,657
Wireless licenses	1,841,798	1,866,353
Assets held for sale	45,569	—
Goodwill	430,101	425,782
Other intangible assets, net	29,854	46,102
Other assets	83,945	46,677
Total assets	<u>\$ 5,052,857</u>	<u>\$ 4,432,998</u>
Liabilities and Stockholders' Equity		
Accounts payable and accrued liabilities	\$ 325,294	\$ 225,735
Current maturities of long-term debt	13,000	10,500
Other current liabilities	162,002	114,808
Total current liabilities	500,296	351,043
Long-term debt	2,566,025	2,033,902
Deferred tax liabilities	223,387	182,835
Other long-term liabilities	84,350	90,172
Total liabilities	3,374,058	2,657,952
Minority interests	56,928	50,724
Commitments and contingencies		
Stockholders' equity:		
Preferred stock — authorized 10,000,000 shares, \$.0001 par value; no shares issued and outstanding	—	—
Common stock — authorized 160,000,000 shares, \$.0001 par value; 69,515,526 and 68,674,435 shares issued and outstanding at December 31, 2008 and 2007, respectively	7	7
Additional paid-in capital	1,851,308	1,808,689
Accumulated deficit	(223,522)	(75,699)
Accumulated other comprehensive loss	(5,922)	(8,675)
Total stockholders' equity	1,621,871	1,724,322
Total liabilities and stockholders' equity	<u>\$ 5,052,857</u>	<u>\$ 4,432,998</u>

These condensed consolidated financial statements should be read in conjunction with the full financial statements and accompanying notes presented in Leap's Annual Report on Form 10-K for the year ended December 31, 2008 and appended to its Proxy Statement for the 2009 Annual Meeting of Stockholders.



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CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended December 31,		
	2008	2007	2006
(In thousands, except per share data)			
Revenues:			
Service revenues	\$ 1,709,101	\$ 1,395,667	\$ 956,365
Equipment revenues	249,761	235,136	210,822
Total revenues	<u>1,958,862</u>	<u>1,630,803</u>	<u>1,167,187</u>
Operating expenses:			
Cost of service (exclusive of items shown separately below)	(488,298)	(384,128)	(264,162)
Cost of equipment	(465,422)	(405,997)	(310,834)
Selling and marketing	(294,917)	(206,213)	(159,257)
General and administrative	(331,691)	(271,536)	(196,604)
Depreciation and amortization	(331,448)	(302,201)	(226,747)
Impairment of assets	(177)	(1,368)	(7,912)
Total operating expenses	<u>(1,911,953)</u>	<u>(1,571,443)</u>	<u>(1,165,516)</u>
Gain (loss) on sale or disposal of assets	(209)	902	22,054
Operating income	46,700	60,262	23,725
Minority interests in consolidated subsidiaries	(4,874)	1,817	1,493
Equity in net loss of investee	(298)	(2,309)	—
Interest income	14,571	28,939	23,063
Interest expense	(158,259)	(121,231)	(61,334)
Other expense, net	(7,032)	(6,039)	(2,650)
Loss before income taxes and cumulative effect of change in accounting principle	<u>(109,192)</u>	<u>(38,561)</u>	<u>(15,703)</u>
Income tax expense	(38,631)	(37,366)	(9,277)
Loss before cumulative effect of change in accounting principle	<u>(147,823)</u>	<u>(75,927)</u>	<u>(24,980)</u>
Cumulative effect of change in accounting principle	—	—	623
Net loss	<u>\$ (147,823)</u>	<u>\$ (75,927)</u>	<u>\$ (24,357)</u>
Basic earnings (loss) per share:			
Income (loss) before cumulative effect of change in accounting principle	\$ (2.17)	\$ (1.13)	\$ (0.41)
Cumulative effect of change in accounting principle	—	—	0.01
Basic earnings (loss) per share	<u>\$ (2.17)</u>	<u>\$ (1.13)</u>	<u>\$ (0.40)</u>
Diluted earnings (loss) per share:			
Income (loss) before cumulative effect of change in accounting principle	\$ (2.17)	\$ (1.13)	\$ (0.41)
Cumulative effect of change in accounting principle	—	—	0.01
Diluted earnings (loss) per share	<u>\$ (2.17)</u>	<u>\$ (1.13)</u>	<u>\$ (0.40)</u>
Shares used in per share calculations:			
Basic	<u>68,021</u>	<u>67,100</u>	<u>61,645</u>
Diluted	<u>68,021</u>	<u>67,100</u>	<u>61,645</u>

These condensed consolidated financial statements should be read in conjunction with the full financial statements and accompanying notes presented in Leap's Annual Report on Form 10-K for the year ended December 31, 2008 and appended to its Proxy Statement for the 2009 Annual Meeting of Stockholders.



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FINANCIALS:)

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)	Year Ended December 31,		
	2008	2007	2006
Operating activities:			
Net loss	\$ (147,823)	\$ (75,927)	\$ (24,357)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Share-based compensation expense	35,215	29,339	19,725
Depreciation and amortization	331,448	302,201	226,747
Accretion of asset retirement obligations	1,153	1,666	1,617
Non-cash interest items, net	13,057	(4,425)	(266)
Loss on extinguishment of debt	—	669	6,897
Deferred income tax expense	35,971	36,084	8,831
Impairment of assets	177	1,368	7,912
Impairment of short-term investments	7,538	5,440	—
(Gain) loss on sale or disposal of assets	209	(902)	(22,054)
Gain on extinguishment of asset retirement obligations	—	(6,089)	—
Minority interest activity	4,781	(1,817)	(1,493)
Equity in net loss of investee	298	2,309	—
Cumulative effect of change in accounting principle	—	—	(623)
Changes in assets and liabilities:			
Inventories	(60,899)	24,977	(52,898)
Other assets	(20,759)	31,164	(26,912)
Accounts payable and accrued liabilities	75,344	(53,310)	95,502
Other liabilities	74,936	23,434	51,243
Net cash provided by operating activities	<u>350,646</u>	<u>316,181</u>	<u>289,871</u>
Investing activities:			
Acquisition of a business, net of cash acquired	(31,217)	—	—
Purchases of property and equipment	(795,678)	(504,770)	(591,295)
Change in prepayments for purchases of property and equipment	(5,876)	12,831	(3,846)
Purchases of and deposits for wireless licenses and spectrum clearing costs	(78,451)	(5,292)	(1,018,832)
Return of deposit for wireless licenses	70,000	—	—
Proceeds from sale of wireless licenses and operating assets	—	9,500	40,372
Purchases of investments	(598,015)	(642,513)	(150,488)
Sales and maturities of investments	532,468	530,956	177,932
Purchase of minority interest	—	(4,706)	—
Purchase of membership units	(1,033)	(18,955)	—
Changes in restricted cash, cash equivalents and short-term investments, net	(2,176)	221	(4,467)
Net cash used in investing activities	<u>(909,978)</u>	<u>(622,728)</u>	<u>(1,550,624)</u>
Financing activities:			
Proceeds from long-term debt	535,750	370,480	2,260,000
Principal payments on capital lease obligations	(41,774)	(5,213)	—
Repayment of long-term debt	(10,500)	(9,000)	(1,168,944)
Payment of debt issuance costs	(7,658)	(7,765)	(22,864)
Minority interest contributions	—	8,880	12,402
Proceeds from issuance of common stock, net	7,885	9,690	1,119
Proceeds from physical settlement of forward equity sale	—	—	260,036
Payment of fees related to forward equity sale	—	—	(1,257)
Net cash provided by financing activities	<u>483,703</u>	<u>367,072</u>	<u>1,340,492</u>
Net increase (decrease) in cash and cash equivalents	(75,629)	60,525	79,739
Cash and cash equivalents at beginning of period	433,337	372,812	293,073
Cash and cash equivalents at end of period	<u>\$ 357,708</u>	<u>\$ 433,337</u>	<u>\$ 372,812</u>

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KEY FINANCIAL RESULTS AND OPERATING METRICS

(In millions)	Year Ended December 31,		
	2008	2007	2006
Revenues:			
Service revenues	\$ 1,709.1	\$ 1,395.7	\$ 956.4
Equipment revenue	249.8	235.1	210.8
Total revenues	1,958.9	1,630.8	1,167.2
Operating Expenses:			
Cost of service	488.3	384.1	264.2
Cost of equipment	465.4	406.0	310.8
Selling and marketing	294.9	206.2	159.3
General and administrative	331.7	271.5	196.6
Depreciation and amortization	331.4	302.2	226.7
Impairment of assets	0.2	1.4	7.9
Total operating expenses	1,912.0	1,571.4	1,165.5
Gain (loss) on sale or disposal of assets	(0.2)	0.9	22.1
Operating income	\$ 46.7	\$ 60.3	\$ 23.7

(In millions, except for percentages, customer data and operating metrics)	Year Ended December 31,		
	2008	2007	2006
Adjusted OIBDA	\$ 413.7	\$ 392.3	\$ 256.1
Existing Business Adjusted OIBDA	\$ 585.8	\$ 392.3	\$ 256.1
Gross customer additions	2,487,579	1,974,504	1,455,810
Net customer additions	942,304	633,693	592,237
End of period customers	3,844,660	2,863,519	2,229,826
End of period covered POPS	~ 67.2	~ 53.2	~ 48.0
Weighted-average customers	3,272,347	2,589,312	1,861,477
Churn	4.0%	4.3%	3.9%
ARPU	\$ 43.52	\$ 44.92	\$ 42.81
CCU	\$ 21.18	\$ 20.84	\$ 20.20
CPGA	\$ 186	\$ 180	\$ 171
Cash purchases of property and equipment	\$ 795.7	\$ 504.8	\$ 591.3



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PERFORMANCE MEASURES

PERFORMANCE MEASURES: In managing our business and assessing our financial performance, management supplements the information provided by our financial statements with several customer-focused performance measures that are widely used in the telecommunications industry.

ARPU, or average revenue per user per month, measures service revenue per customer. ARPU is service revenue divided by the weighted-average number of customers, divided by the number of months during the period being measured.

CPGA, or cost per gross addition, measures the average cost of acquiring a new customer. CPGA is selling and marketing costs (excluding applicable share-based compensation expense included in selling and marketing expense), and equipment subsidy (generally defined as cost of equipment less equipment revenue), less the net loss on equipment transactions unrelated to initial customer acquisition, divided by the total number of gross new customer additions during the period being measured. The net loss on equipment transactions unrelated to initial customer acquisition includes the revenues and costs associated with the sale of handsets to existing customers as well as costs associated with handset replacements and repairs (other than warranty costs which are the responsibility of the handset manufacturers). We deduct customers who do not pay their first monthly bill from our gross customer additions, which tends to increase CPGA because we incur the costs associated with this customer without receiving the benefit of a gross customer addition.

CCU, or cash costs per user per month, measures the non-selling cash cost of operating our business on a per customer basis. CCU is cost of service and general and administrative costs (excluding applicable share-based compensation expense included in cost of service and general and administrative expense) plus net loss on equipment transactions unrelated to initial customer acquisition (which includes the gain or loss on the sale of handsets to existing customers and costs associated with handset replacements and repairs (other than warranty costs which are the responsibility of the handset manufacturers)), divided by the weighted-average number of customers, divided by the number of months during the period being measured. CCU does not include any depreciation and amortization expense.

CCPU, or calculated contribution per user per month, measures the approximate ongoing operating contribution per user per month assuming that ARPU, CCU, CPGA and churn remain constant over the customer's lifetime. CCPU is defined as ARPU, less CCU, less churn-adjusted CPGA.

Churn, which measures customer turnover, is calculated as the net number of customers that disconnect from our service divided by the weighted-average number of customers divided by the number of months during the period being measured. Customers who do not pay their first monthly bill are deducted from our gross customer additions in the month that they are disconnected; as a result, these customers are not included in churn. Customers of our Cricket Wireless and Cricket Broadband services are generally disconnected from service approximately 30 days after

failing to pay a monthly bill, and pay-in-advance customers who ask to terminate their service are disconnected when their paid service period ends. Customers for our Cricket PAYGo service are generally disconnected from service if they have not replenished or "topped up" their account within 60 days after the end of their initial term of service.

Adjusted OIBDA is defined as operating income less depreciation and amortization, adjusted to exclude the effects of: gain/loss on sale/disposal of wireless licenses and operating assets; impairment of indefinite-lived intangible assets; impairment of long-lived assets and related charges; and share-based compensation expense.

Existing Business Adjusted OIBDA further adjusts adjusted OIBDA to exclude total revenues attributable to new markets launched after December 31, 2007 and our mobile broadband offering, and to add back operating expenses attributable to such activities that were included in total operating expenses (other than depreciation and amortization and share-based compensation expense, which have already been added back to adjusted OIBDA).

In a capital-intensive industry such as wireless telecommunications, management believes that adjusted OIBDA and Existing Business Adjusted OIBDA, as well as the associated percentage margin calculations, are meaningful measures of our operating performance. We use adjusted OIBDA and Existing Business Adjusted OIBDA as supplemental performance measures because management believes they facilitate comparisons of our operating performance from period to period and comparisons of our operating performance to that of other companies by backing out potential differences caused by the age and book depreciation of fixed assets (affecting relative depreciation expenses) as well as the items described above for which additional adjustments were made. While depreciation and amortization are considered operating costs under generally accepted accounting principles, these expenses primarily represent the non-cash current period allocation of costs associated with long-lived assets acquired or constructed in prior periods. Adjusted OIBDA and Existing Business Adjusted OIBDA have limitations as analytical tools, and should not be considered in isolation or as substitutes for analysis of our results as reported under GAAP. Some of these limitations include: they do not reflect capital expenditures; although they do not include depreciation and amortization, the assets being depreciated and amortized will often have to be replaced in the future, and adjusted OIBDA and Existing Business Adjusted OIBDA do not reflect cash requirements for such replacements; they do not reflect costs associated with share-based awards exchanged for employee services; they do not reflect the interest expense necessary to service interest or principal payments on current or future indebtedness; and they do not reflect expenses incurred for the payment of income taxes and other taxes.

Other companies may calculate these measures differently. For more information regarding our use of performance measures, please refer to our periodic reports filed with the SEC, including our Annual Report on Form 10-K for the year ended December 31, 2008.



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RECONCILIATION OF NON-GAAP FINANCIAL MEASURES

The following table reconciles total costs used in the calculation of CPGA to selling and marketing expense, which we consider to be the most directly comparable GAAP financial measure to CPGA.

	Year Ended December 31,		
	2008	2007	2006
(In thousands, except gross customer additions and CPGA)			
Selling and marketing expense	\$ 294,917	\$ 206,213	\$ 159,257
Less share-based compensation expense included in selling and marketing expense	(4,580)	(3,330)	(1,970)
Plus cost of equipment	465,422	405,997	310,834
Less equipment revenue	(249,761)	(235,136)	(210,822)
Less net loss on equipment transactions unrelated to initial customer acquisition	(42,174)	(17,866)	(8,196)
Total costs used in the calculation of CPGA	\$ 463,824	\$ 355,878	\$ 249,103
Gross customer additions	2,487,579	1,974,504	1,455,810
CPGA	\$ 186	\$ 180	\$ 171

The following table reconciles total costs used in the calculation of CCU to cost of service, which we consider to be the most directly comparable GAAP financial measure to CCU.

	Year Ended December 31,		
	2008	2007	2006
(In thousands, except weighted average number of customers and CCU)			
Cost of service	\$ 488,298	\$ 384,128	\$ 264,162
Plus general and administrative expense	331,691	271,536	196,604
Less share-based compensation expense included in cost of service and general and administrative expense	(30,635)	(26,009)	(17,755)
Plus net loss on equipment transactions unrelated to initial customer acquisition	42,174	17,866	8,196
Total costs used in the calculation of CCU	\$ 831,528	\$ 647,521	\$ 451,207
Weighted-average number of customers	3,272,347	2,589,312	1,861,477
CCU	\$ 21.18	\$ 20.84	\$ 20.20



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RECONCILIATION OF NON-GAAP FINANCIAL MEASURES (continued)

Calculated contribution per user per month is calculated as follows:

	Year Ended December 31,		
	2008	2007	2006
ARPU	\$ 43.52	\$ 44.92	\$ 42.81
Less CCU	(21.18)	(20.84)	(20.20)
Less CPGA times churn (\$186 x 4.0%), (\$180 x 4.3%) and (\$171 x 3.9%)	(7.44)	(7.74)	(6.67)
Calculated contribution per user per month	\$ 14.90	\$ 16.34	\$ 15.94

The following table reconciles Adjusted OIBDA and Existing Business Adjusted OIBDA to operating income, which we consider to be the most directly comparable GAAP financial measure to Adjusted OIBDA and Existing Business Adjusted OIBDA.

(In thousands)	Year Ended December 31,		
	2008	2007	2006
Operating income	\$ 46,700	\$ 60,262	\$ 23,725
Plus depreciation and amortization	331,448	302,201	226,747
OIBDA	378,148	362,463	250,472
Less (gain) loss on sale or disposal of assets	209	(902)	(22,054)
Plus impairment of assets	177	1,368	7,912
Plus share-based compensation expense	35,215	29,339	19,725
Adjusted OIBDA	413,749	392,268	256,055
Plus net operating expense attributable to new markets included in total operating expenses	114,911	—	—
Plus net operating expense attributable to broadband included in total operating expenses	57,120	—	—
Existing Business Adjusted OIBDA	\$ 585,780	\$ 392,268	\$ 256,055



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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of Leap Wireless International, Inc.:

We have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Leap Wireless International, Inc. and its subsidiaries as of December 31, 2008 and 2007, and the related consolidated statements of operations, of cash flows and of stockholders' equity (not presented herein) for each of the three years in the period ended December 31, 2008 appearing in Item 8 of Leap Wireless International, Inc.'s annual report on Form 10-K for the year ended December 31, 2008; and in our report dated February 27, 2009, we expressed an unqualified opinion on those consolidated financial statements thereon (with explanatory paragraphs relating to the change in accounting principle for share-based compensation and the change in accounting principle for uncertain tax positions).

In our opinion, the information set forth in the accompanying condensed consolidated financial statements is fairly stated, in all material respects, in relation to the consolidated financial statements from which it has been derived.

A handwritten signature in black ink, appearing to read "PricewaterhouseCoopers".

San Diego, California
February 27, 2009