

Cricket dialed in for debut--After lengthy delays, Leap's cell phone service is available in its hometown

http://www.signonsandiego.com/uniontrib/20061206/news_1b6leap.html

By Kathryn Balint

December 6, 2006

Leap Wireless International finally enters its hometown San Diego market today with its flat-rate, Cricket cell phone service – a long-awaited move delayed first by a bankruptcy and then by the earlier stages of a \$900 million expansion.

The launch marks the 13th new market that the San Diego-based company has entered this year. Cricket's coverage will extend from Oceanside to the U.S.-Mexico border, from the coast to Poway.

Cricket offers unlimited calling, unlimited text messaging, unlimited picture messaging and unlimited long-distance wireless service for a flat rate of \$45 a month. The plans only cover a specific service area, however. Additional fees apply when calls originate from outside the service area.

Cricket does not require customers to sign contracts or undergo credit checks. Unlike competitors that require long-term contracts, it does not offer free or highly subsidized phones.

"They've found themselves a nice little niche with local-only service and all-you-can-eat in terms of minutes," said Michael King, a San Diego-based analyst for Gartner market research firm.

Cricket's cell-phone service is available in 52 other U.S. cities, including Houston, Denver, Kansas City, Mo., and Dayton, Ohio. Next week, the carrier plans to launch its 14th U.S. market this year, in Portland, Ore.

Largely as a result of ambitious expansion, Leap's third-quarter earnings dropped 39 percent from the year-ago quarter. The company reported net income of \$10 million, or 16 cents per share, for the quarter that ended Sept. 30.

Leap's third-quarter revenue increased 25 percent to \$288 million.

In 2005, Leap posted \$30 million in net income, or 49 cents per diluted share. This compares with net income of \$904.8 million for 2004, which included \$962.4 million in items related to the bankruptcy reorganization.

Leap reported 2005 revenue of \$914.7 million, an 11 percent increase over 2004.

Cricket typically caters to low-income households, those with bad credit, customers who rarely travel outside of the area or, as Fernando Corona, Leap's regional vice president, put it, "anyone who wants to save money."

Because there is no limit on minutes, the average Cricket customer talks 1,500 minutes, or 25 hours, a month on the phone – more than twice that of the average cell-phone user in the United States.

Leap Wireless attracted the attention of investors in San Diego in 1998 when it spun off from Wall Street darling Qualcomm. For a while, things were looking good, with Leap shares soaring to \$102 in March 2000. But the burst of the tech bubble in 2001 took its toll.

For more information on the Cricket service visit:
www.mycricket.com/sandiego or call (800) 274-2538

Jim Seines, director of investor relations for the company, blames the closure of the capital market for Leap's descent into bankruptcy.

Leap had financed its new wireless networks through the companies that it hired to build them. Leap's executives had hoped to refinance those deals with lower rates and more favorable terms.

"Unfortunately, with the conditions that were in existence in 2002 and the closure of the capital market, that avenue was completely closed to us," Seines said.

In April 2003, the company filed for Chapter 11 bankruptcy protection.

When Leap emerged from bankruptcy in August 2004, its old shares had been rendered worthless and the company issued 60 million new shares of stock.

"Everyone was thinking, 'What's going to become of these guys?'" said analyst King.

The bankruptcy had relieved Leap of \$2 billion of debt. And it also resulted in streamlined operations that were already more efficient than those of other wireless carriers, Seines said.

"We emerged as a revitalized company, a stronger enterprise with a significantly more efficient capital structure and a very bright outlook for the future," he said. "There were a lot of lessons learned."

Leap set out on its present-day course by making what Seines called "very strategic selections" about which markets it wanted to move into.

In 2005, the company and a partner bought \$235 million worth of spectrum in a Federal Communications Commission auction. The 13 spectrum licenses included markets such as San Diego, Kansas City and Houston, which Leap entered this year.

Leap financed its current, \$900 million expansion – which ends in mid-2007 – through its cash flow from existing business, a \$200 million loan and the \$110 million sale of unused spectrum, the range of radio frequency on which cell phone calls are transmitted.

Then in September, Leap bought \$984 million worth of spectrum in another FCC auction to expand its network in 2008 and 2009. The licenses won by Leap in that auction include spectrum in Cincinnati, Lexington and Louisville, Ky.; and Colorado Springs, Colo.

Leap raised \$1.3 billion for the expansion that starts in 2008 by selling shares of common stock, issuing \$750 million in high-yield bonds and increasing a term loan by \$300 million.

"They've become quite a profitable carrier," said King, the Gartner analyst. "Some of it has to do with the debt restructuring. Some of it has to do with the fact that they've always pretty much been a low-cost provider."

It costs Leap Wireless 1.3 cents to deliver a one-minute call, compared with the industry average of 3.1 cents.

Seines said Leap's business model was designed from the outset to be more efficient than that of other carriers.

For instance, Leap buys spectrum only in markets where it expects to turn a profit. "We're not building out inefficient sites in rural areas," Seines said.

And with a flat-rate billing plan, customer-service representatives field fewer calls about bills – a large expense for other carriers with complicated rate plans.

"Our business remains focused day in and day out on saving nickels, dimes, quarters, pennies," Seines said.

Leap said it is already bringing in revenue in the markets it entered earlier this year. For instance, the company's operation in Houston, where Cricket started service in June, is expected to turn a profit by the end of this month, Corona said.

Leap executives have long wanted to operate in the company's hometown. Corona said it has many of the characteristics of Leap's profitable market: a concentration of Latinos, income levels at the "sweet spot" and proximity to Mexico. Cricket offers special calling plans to Mexico and targets customers who live in Mexico and work in the United States.

Throughout its markets nationwide, more than half the Cricket subscribers are 35 years or younger and almost 70 percent have annual household incomes of \$35,000 or less. More than half of the carrier's customers have no land line and use their cell phones as their primary phones.

For its network in San Diego, Leap has deployed few cellular towers and instead has opted for a less-obvious system of "distributed antennas" that are about the size of a toaster oven and mounted on streetlights or rooftops. It is the largest commercial distributed antenna system for a wireless network in the nation.

The distributed antennas are more costly; it takes about three or four them to equal one antenna atop a traditional tower. But by choosing such a system, Leap avoided the costly community controversies that have been caused by proposals to build large cellular towers.

"It's much less obtrusive," Leap spokesman Greg Lund said. "You can drive by the antennas and not even know it."

Leap is selling its Cricket wireless service at five retail stores in the county and through more than 50 exclusive Cricket retailers and 75 independent dealers.