

AUG 1 - 2013

Federal Communications Commission
Office of the Secretary**DECLARATION OF S. DOUGLAS HUTCHESON**

I, S. Douglas Hutcheson, hereby declare the following:

1. I am Chief Executive Officer (“CEO”) for Leap Wireless International, Inc. (“Leap”), a position I have held since 2005. I joined Leap as a member of its founding management team in 1998 and have held a number of roles within the company since then, including President, Chief Financial Officer, and a number of Vice President positions in which I had responsibility for areas including strategic planning as well as product and business development. I am also a member of Leap’s Board of Directors. In my CEO role, I am responsible for developing and implementing high-level strategies for the company as well as its overall management.

2. Leap is a wireless communications carrier that offers digital wireless services in the United States under the “Cricket” brand. The company’s Cricket service offerings provide customers with unlimited wireless services for a prepaid flat rate without requiring a fixed-term contract or a credit check. In addition, a small portion of Cricket’s customers purchase flat rate, prepaid, limited minute plans. Leap launched its Cricket prepaid service offering in March 1999, and has over 14 years of experience in marketing and selling no-contract service. Leap’s business model has, since inception, focused on providing facilities-based wireless service in selected metropolitan areas only. As of June 30, 2013, Leap had approximately 4.8 million customers and owns wireless licenses covering approximately 137 million people, approximately 96 million of whom are covered by Leap’s own network footprint. As such, Leap is not a nationwide facilities-based provider and, for the reasons I explain below, has no current plans to become one.

3. The Cricket brand is widely recognized by its target customers, and Cricket has widespread retail distribution outlets in close proximity to target customers within Leap's network footprint. Leap provides coverage outside of its network footprint through resale as a Mobile Virtual Network Operator ("MVNO") and via roaming relationships with other wireless carriers.

4. The retail wireless market has changed significantly in recent years. Wireless data traffic in the U.S. is reported to have more than doubled year-over-year since 2009—from 108 billion MBs in the second half of 2009 to 633 billion MBs in the first half of 2012¹—and these exponential increases in data traffic are expected to continue.² Customers increasingly demand 4G service to transmit and receive data more quickly and more reliably. Leap would need to upgrade its network to LTE in order to meet this expanding consumer demand for 4G wireless services, but, as I explain further below, Leap has not deployed 4G service as quickly and extensively as other carriers.

5. Amidst this structural change in the wireless industry, Leap's financial position has deteriorated in recent quarters. Leap has experienced net subscriber losses in each of the last five quarters. The number of subscribers declined approximately 22% over that time period from approximately 6.2 million subscribers as of March 31, 2012 to approximately 4.8 million subscribers as of June 30, 2013. Intensifying competition in the wireless industry, particularly from carriers with nationwide LTE networks, is likely to negatively impact Leap's ability to attract and retain customers in the future.

¹ See http://files.ctia.org/pdf/CTIA_Survey_MY_2012_Graphics-_final.pdf.

² See http://www.cisco.com/en/US/solutions/collateral/ns341/ns525/ns537/ns705/ns827/white_paper_c11-520862.html ("Global mobile data traffic will increase 18-fold between 2011 and 2016.").

6. Lower gross customer additions and a lower weighted-average number of customers mean that Leap's fixed (and semi-fixed) costs are spread over a smaller customer base. At the same time, variable costs per customer have increased, resulting in increasing pressure on Leap's operating margins. Leap's costs per gross customer addition have risen from \$296 per gross customer addition in 2Q 2012 to \$387 per gross customer addition in 2Q 2013—a 31% increase—due primarily to spreading fixed (and semi-fixed) selling and marketing costs over fewer gross customer additions. At the same time, Leap's cash costs per user have risen from \$22.91 in 2Q 2012 to \$27.79 in 2Q 2013—a 21% increase due primarily to spreading fixed (and semi-fixed) costs over fewer subscribers as well as increases in per-customer product expenses and upgrade subsidies for existing customers. Cost-reduction initiatives introduced as a result of Leap's declining customer base and an associated decline in service revenues may further negatively impact customer acquisition and retention in the future. Leap also has experienced over a billion dollars in net losses over the last several years. Leap has not earned a net annual profit in any of the past seven years, and its only profitable quarter in recent years was primarily due to recognizing a gain on the sale of some AWS and PCS spectrum holdings, rather than from operating profits.

7. These changes, combined with Leap's high level of indebtedness, have negatively impacted Leap's ability to invest in expanding and improving its business. Against the backdrop of declining customer numbers, Leap has taken a number of actions, including evaluating alternatives to LTE network deployment to provide LTE services to its customers and making repeated reductions of its level of capital expenditures. For example, for 2012, Leap initially budgeted \$600 million to \$650 million of capital expenditures but ultimately spent only \$434.4 million. For 2013, Leap initially budgeted just \$275 million to \$325 million, but by May 2013

Leap had further reduced its capital expenditures budget for the year to just \$250 million to \$300 million.

8. Leap has taken a number of additional measures to cut costs. For example, Leap is contracting its distribution footprint, reversing an ambitious expansion plan that had been implemented in 2010. Leap reduced the number of company and dealer doors in the first half of 2013 and over the last several quarters terminated all of its national retail dealer relationships other than its relationships with Walmart and Radio Shack. As a result, Leap reduced the number of its national retail outlets from approximately 13,000 at the end of the second quarter of 2012 to approximately 5,000 at the end of first quarter of 2013. In addition, Leap has reduced administrative and corporate support costs through reductions in personnel, cutting non-customer facing positions by 11 percent in the fourth quarter of 2012.

9. Leap's network operates primarily on 3G CDMA EDVO technology but Leap is facing increasing pressure to provide LTE services to its customers in order to meet expanding consumer demand for data speed. Given the financial constraints and Leap's limited spectrum resources described above, Leap has limited its deployment of LTE technology and has overlaid LTE in only 11 metropolitan areas, covering approximately 21 million people. Sixty-five percent of Cricket subscribers do not have access to LTE in their home markets. In contrast, Verizon has announced that its LTE network covers 89% of the United States.³ As wireless data traffic continues to climb, the constraints on Leap's LTE deployment will likely increasingly hamper Leap's ability to compete with national carriers.

³ Verizon Wireless Form 10-K For Fiscal Year Ended December 31, 2012, at 2, available at http://eol.edgarexplorer.com/EFX_dll/EDGARpro.dll?FetchFilingHTML1?SessionID=DicR6Dh7j8kwYa-&ID=9114533 (last visited July 19, 2013).

10. Leap holds AWS and PCS spectrum in various parts of the country that it has not deployed due to the expected costs of building-out that spectrum and of seeking to acquire customers, compared to the economic benefits Leap could expect to gain in those markets. Within its network footprint (which covers 96 million people), Leap has deployed only about 42% of its spectrum. Outside its network footprint, Leap holds spectrum covering approximately 41 million people that it has not yet deployed. Leap's underutilized spectrum includes unused channels on spectrum it has deployed and spectrum in markets that it has not yet built out.

11. Leap holds an average of only 23 MHz of spectrum in operating markets (i.e., where Leap has facilities-based operations), generally consisting of PCS and AWS spectrum. Leap's limited spectrum holdings make it difficult for the company to deploy a robust and competitive LTE network (10 x 10 MHz or greater) while maintaining the 3G network used by the majority of Leap's existing customers. A majority of Leap's LTE markets (covering approximately 14 million PoPs in total) operate on 3x3 MHz of spectrum, and Leap's remaining LTE markets (covering less than 7 million PoPs in total) operate on 5x5 MHz channels. These relatively small channels limit the speed of the network. In contrast, we understand that the national providers enjoy 10x10 MHz LTE channels in many markets. This puts Leap at a competitive disadvantage. For example, it has been reported that Verizon LTE users experience average download speeds of 14.3 Mbps and average upload speeds of up to 8.5 Mbps⁴, while Leap LTE users experience average download speeds of 3 Mbps and average upload speeds of 1 Mbps.

12. A highly leveraged balance sheet also impedes Leap's ability to further build out its LTE network. Leap had \$3.6 billion of outstanding debt as of June 30, 2013 (or net debt of

⁴ See <http://rootmetrics.com/special-reports/lte-performance-review/>.

approximately \$2.7 billion, calculated as total indebtedness, minus unrestricted cash, cash equivalents, and short-term investments). The outstanding debt is up from \$2.8 billion as of March 31, 2011. Leap's ratio of interest to operating income (before depreciation and amortization) was 47% for the three months ended June 30, 2013. This debt load limits Leap's ability to finance capital expenditures (including for LTE deployment, as discussed above), to purchase additional spectrum, and to make other business investments that Leap may need to meet customer demands and remain competitive. Leap thus has no current plans to expand its current spectrum holdings in any significant way or to build commercial facilities outside of its current network footprint.

13. Leap has attempted to expand its retail footprint by combining MVNO services with facilities-based services, but those efforts have fallen short of expectations. Leap's 3G MVNO offering has only attracted a relatively small number of customers, and Leap is not yet offering 4G services on an MVNO basis.

14. Handsets are another area where Leap faces challenges competing with national providers. To reduce expensive subsidies to subscribers, Leap increased handset prices across the board in the third quarter of 2012, a move that resulted in a decrease in new subscribers. Due to the high cost of handsets and the fact that pre-paid customers typically purchase their handsets up-front, Leap has also recently announced a new device-financing program designed to provide a broad range of consumers with attractive options to purchase the handsets they want over time. While we believe we have designed this program to meet the needs of consumers who prefer an alternative to full up-front payment for a handset and expect that it will increase sales, the actual performance of this program remains uncertain. If default rates and other factors are not

consistent with our initial expectations, these programs may result in further increases in Leap's costs.

15. As a result of these challenges, Leap is a weaker competitive force today than it was in 2011 when the Federal Communications Commission and Department of Justice determined that it did not present a meaningful competitive constraint on a proposed AT&T-T-Mobile combination.

16. In contrast, Leap's competitors have grown stronger since 2011. In the last 18 months, T-Mobile has gained significant spectrum from AT&T, Verizon, and its acquisition of MetroPCS that it has used to become a more formidable competitor. While Leap has always viewed T-Mobile as a close competitor, T-Mobile has intensified competition with its prepaid wireless offerings, including its new GoSmart brand. In addition, Leap expects increased head-to-head competition from the T-Mobile MetroPCS brand, which has begun to expand aggressively into Leap markets since MetroPCS's merger with T-Mobile. That merger expanded MetroPCS's potential geographic reach nationwide to more areas where Leap offers service and also has provided it access to T-Mobile's LTE network. Sprint's Virgin mobile and Boost prepaid brands are also already present in most areas covered by the Leap network footprint with a strong network (including LTE) and extensive spectrum holdings, and we expect Sprint to invest further in its LTE network following Softbank's acquisition of a controlling stake in the company and infusion of capital. Indeed, these companies have been increasing their focus on prepaid/no-contract value offerings, which has placed additional competitive pressure on Leap. MVNOs, most notably TracFone/StraightTalk, offer an additional source of competitive constraint on Leap and other providers that specialize in prepaid/non contract offerings. In contrast to the competitors discussed above, porting data collected by Leap shows that AT&T

has not been a significant competitor to Leap. Rather, Leap perceives T-Mobile/MetroPCS, Sprint and TracFone to be its most significant competitors.

17. The proposed transaction with AT&T will solve the problems outlined above and will benefit Leap's customers. For example, Leap's customers will gain access to a significantly superior, nationwide 4G network than Leap could readily develop on its own given its limited footprint, limited spectrum holdings, and debt load. In contrast to Leap's limited LTE deployment of 3x3 MHz and 5x5 MHz channel blocks, AT&T's LTE deployment is at least 5x5 MHz, and 10x10 MHz in many markets. In addition, Leap customers will be on-net nationwide, rather than relying on roaming and MVNO relationships using third-party networks, resulting in more seamless service and a better customer experience.

I declare under penalty of perjury that the foregoing is true and correct.

Executed on August 1, 2013.

By: 

S. Douglas Hutcheson