COHEN & STEERS QUALITY INCOME REALTY FUND INC
Form N-CSRS
September 04, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM N-CSR

CERTIFIED SHAREHOLDER REPORT OF REGISTERED MANAGEMENT INVESTMENT COMPANIES

Investment Company Act file number 811-10481

Cohen & Steers Quality Income Realty Fund, Inc.
(Exact name of registrant as specified in charter)

280 Park Avenue, New York, NY	10017
(Address of principal executive offices)	(Zip code)

Tina M. Payne

Cohen & Steers Capital Management, Inc.

280 Park Avenue

New York, New York 10017
(Name and address of agent for service)

Registrant s telephone number, including area code: (212) 832-3232

Date of fiscal year end: December 31

Date of reporting period: June 30, 2015

Item 1. Reports to Stockholders.

COHEN & STEERS QUALITY INCOME REALTY FUND, INC.

To Our Shareholders:

We would like to share with you our report for the six months ended June 30, 2015. The net asset value (NAV) at that date was $12.34 per common share. The Fund's common stock is traded on the New York Stock Exchange (NYSE) and its share price can differ from its NAV; at period end, the Fund's closing price on the NYSE was $10.69.

The total returns, including income, for the Fund and its comparative benchmarks were:

	Six Months Ended June 30, 2015
Cohen & Steers Quality Income Realty Fund at NAV[a]	5.13%
Cohen & Steers Quality Income Realty Fund at Market Value[a]	8.64%
FTSE NAREIT Equity REIT Index[b]	5.67%
Blended Benchmark 80% FTSE NAREIT Equity REIT Index/ 20% BofA Merrill Lynch REIT Preferred Securities Index[b]	4.15%
S&P 500 Index[b]	1.23%

The performance data quoted represent past performance. Past performance is no guarantee of future results. The investment return and the principal value of an investment will fluctuate and shares, if sold, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Performance results reflect the effects of leverage, resulting from borrowings under a credit agreement. Current total returns of the Fund can be obtained by visiting our website at cohenandsteers.com. The Fund's returns assume the reinvestment of all dividends and distributions at prices obtained under the Fund's dividend reinvestment plan. Index performance does not reflect the deduction of any fees, taxes or expenses. An investor cannot invest directly in an index. Performance figures for periods shorter than one year are not annualized.

Managed Distribution Policy

Cohen & Steers Quality Income Realty Fund, Inc. (the Fund), acting in accordance with an exemptive order received from the Securities and Exchange Commission and with approval of its Board of Directors (the Board), adopted a managed distribution policy under which the Fund intends to include long-term capital gains, where applicable, as part of the regular quarterly cash distributions to its shareholders (the Plan). The Plan will give the Fund greater flexibility to realize long-term capital gains

[a] As a closed-end investment company, the price of the Fund's NYSE-traded shares will be set by market forces and can deviate from the NAV per share of the Fund.

[b] The FTSE NAREIT Equity REIT Index is an unmanaged, market-capitalization-weighted index of all publicly traded REITs that invest predominantly in the equity ownership of real estate. The index is designed to reflect the performance of all publicly traded equity REITs as a whole. The BofA Merrill Lynch REIT Preferred Securities Index is a subset of the BofA Merrill Lynch Fixed-Rate Preferred Securities Index including all real estate investment trust issued preferred securities. The S&P 500 Index is an unmanaged index of 500 large-capitalization stocks that is frequently used as a general measure of U.S. stock market performance.

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and to distribute those gains on a regular quarterly basis. In accordance with the Plan, the Fund currently distributes $0.24 per share on a quarterly basis.

The Fund may pay distributions in excess of the Fund's investment company taxable income and net realized gains. This excess would be a return of capital distributed from the Fund's assets. Distributions of capital decrease the Fund's total assets and, therefore, could have the effect of increasing the Fund's expense ratio. In addition, in order to make these distributions, the Fund may have to sell portfolio securities at a less than opportune time.

Shareholders should not draw any conclusions about the Fund's investment performance from the amount of these distributions or from the terms of the Fund's Plan. The Fund's total return based on net asset value is presented in the table above as well as in the Financial Highlights table.

The Plan provides that the Board may amend or terminate the Plan at any time without prior notice to Fund shareholders; however, at this time, there are no reasonably foreseeable circumstances that might cause the termination. The termination of the Plan could have the effect of creating a trading discount (if the Fund's stock is trading at or above net asset value) or widening an existing trading discount.

Market Review

Following a strong start to the year, U.S. real estate investment trusts (REITs) fell back in the second quarter to post negative returns for the six-month period. The group came under pressure amid a difficult combination of mixed economic signals and rising bond yields. Gross domestic product (GDP) contracted at an annualized rate of 0.2% in the first quarter, a sharp contrast with the previous quarter's 2.2% growth. However, other aspects of the U.S. economy were relatively healthy, including job growth, housing activity, bank lending, and consumer confidence and spending.

Sovereign bond yields moved higher in response to generally improving global economic conditions. Better economic data in Europe and Japan helped lift bond yields off record lows reached earlier in the year, and U.S. bond yields rose in tandem, but also in anticipation of a possible Federal Reserve interest-rate hike in 2015. Although rate concerns often weigh on REIT returns in the short term, over longer periods REIT performance has been positively associated with rising rates, both of which tend to be propelled by stronger economic growth.

Returns were negative for most property types, despite continued strong fundamentals for U.S. commercial real estate, as reflected in earnings that generally met high expectations. Health care property REITs (11.7% total return) were among the poorest performers in the quarter. The sector underperformed due to its perceived bond-like characteristics in a period of rising yields, even as health care REITs have been transitioning to more economically sensitive business models over the years.

The shopping center and regional mall sectors (8.1% and 6.2%, respectively) underperformed, even as tenants continued to exhibit strong interest in proven assets. Self storage companies (3.7%) were top performers, drawing support from strong earnings, with year-over-year rental growth running as high as 10%. Apartment landlords (0.8%) also outperformed with a gain, amid sustained household formation that has kept demand ahead of supply. Even apartments in markets vulnerable to lower oil prices, such as Houston, have so far shown a fair degree of resilience.

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Despite heightened volatility, the REIT market continued to see mergers and acquisitions, including the sale of apartment owner Associated Estates to Brookfield Asset Management, and Blackstone's acquisition of shopping center REIT Excel Trust, both at double-digit premiums to the prevailing share prices. Also of note, Equinix, a data center REIT, announced a $3.6 billion takeover of the U.K.'s Telecity Group. In the office sector (5.3%), SL Green Realty said that it would purchase a New York City tower for $2.6 billion, in one of New York's largest-ever property deals.

REIT Preferred Securities Advanced

Preferred securities issued by commercial real estate companies had a total return of 1.9% in the period as measured by the BofA Merrill Lynch REIT Preferred Securities Index. Good and improving real estate fundamentals continued to enhance REITs' financial profiles, while favorable technical factors low new supply of REIT preferreds combined with steady demand also supported the group's performance.

Fund Performance

The Fund had a negative total return for the period and underperformed its blended benchmark on a NAV and market price basis. Stock selection in the office sector detracted from relative return, as it did in the industrial (11.3% total return in the index) and shopping center sectors. Our overweight and stock selection in the apartment sector helped relative performance. Our underweight and stock selection in health care REITs also contributed to relative performance. Security selection among REIT preferred securities was favorable, although the effect was countered by our underweight in REIT preferreds compared with the blended benchmark.

Impact of Derivatives on Fund Performance

The Fund engaged in the buying and selling of single stock options with the intention of enhancing total returns and reducing overall volatility. These contracts did not have a material effect on the Fund's total return during the six-month period ended June 30, 2015.

Impact of Leverage on Fund Performance

The Fund employs leverage as part of a yield-enhancement strategy. Leverage, which can increase total return in rising markets (just as it can have the opposite effect in declining markets), significantly detracted from the Fund's performance for the six-month period ended June 30, 2015.

Investment Outlook

We expect U.S. economic activity to accelerate after a slow start to the year, with GDP expanding nearly 2.5% in 2015. Continued employment and wage growth should support further strength in consumer confidence, in our view, and we expect to see a more-pronounced benefit from lower gasoline prices in the coming months. These potentially favorable demand trends should be met with continued low levels of new supply in most sectors.

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Based on our view of a resumed expansion in the U.S. economy, we believe commercial real estate fundamentals will continue to strengthen, driving further increases in cash flows, net asset values and dividend distributions. This top-down perspective has led us to prefer cyclically sensitive short-lease sectors. However, our bottom-up analysis has also identified companies offering compelling relative value in traditionally noncyclical sectors. We believe that one area of potential opportunity at present is health care, where certain stocks are trading at discounts to underlying property values for the first time in years.

Sincerely,

ROBERT H. STEERS *Chairman*	JOSEPH M. HARVEY *Portfolio Manager*
WILLIAM F. SCAPELL *Portfolio Manager*	THOMAS N. BOHJALIAN *Portfolio Manager*

JASON YABLON

Portfolio Manager

COHEN & STEERS QUALITY INCOME REALTY FUND, INC.

The views and opinions in the preceding commentary are subject to change without notice and are as of the date of the report. There is no guarantee that any market forecast set forth in the commentary will be realized. This material represents an assessment of the market environment at a specific point in time, should not be relied upon as investment advice and is not intended to predict or depict performance of any investment.

Visit Cohen & Steers online at cohenandsteers.com

For more information about the Cohen & Steers family of mutual funds, visit cohenandsteers.com. Here you will find fund net asset values, fund fact sheets and portfolio highlights, as well as educational resources and timely market updates.

Our website also provides comprehensive information about Cohen & Steers, including our most recent press releases, profiles of our senior investment professionals and their investment approach to each asset class. The Cohen & Steers family of mutual funds invests in major real asset categories including real estate, infrastructure, commodities and natural resource equities, as well as preferred securities and other income solutions.

COHEN & STEERS QUALITY INCOME REALTY FUND, INC.

Our Leverage Strategy
(Unaudited)

Our current leverage strategy utilizes borrowings up to the maximum permitted by the Investment Company Act of 1940 to provide additional capital for the Fund, with an objective of increasing the net income available for shareholders. As of June 30, 2015, leverage represented 25% of the Fund's managed assets.

Through a combination of variable and fixed rate financing, the Fund has locked in interest rates on a significant portion of this additional capital for periods expiring in 2017, 2018 and 2019[c] (where we effectively reduce our variable rate obligation and lock in our fixed rate obligation over various terms). Locking in a significant portion of our leveraging costs is designed to protect the dividend-paying ability of the Fund. The use of leverage increases the volatility of the Fund's net asset value in both up and down markets. However, we believe that locking in portions of the Fund's leveraging costs for the various terms partially protects the Fund's expenses from an increase in short-term interest rates.

Leverage Facts[a,b]

Leverage (as a % of managed assets)	25%
% Fixed Rate	85%
% Variable Rate	15%
Weighted Average Rate on Financing	1.9%[c]
Weighted Average Term on Financing	3.2 years[c]

The Fund seeks to enhance its dividend yield through leverage. The use of leverage is a speculative technique and there are special risks and costs associated with leverage. The net asset value of the Fund's shares may be reduced by the issuance and ongoing costs of leverage. So long as the Fund is able to invest in securities that produce an investment yield that is greater than the total cost of leverage, the leverage strategy will produce higher current net investment income for shareholders. On the other hand, to the extent that the total cost of leverage exceeds the incremental income gained from employing such leverage, shareholders would realize lower net investment income. In addition to the impact on net income, the use of leverage will have an effect of magnifying capital appreciation or depreciation for shareholders. Specifically, in an up market, leverage will typically generate greater capital appreciation than if the Fund were not employing leverage. Conversely, in down markets, the use of leverage will generally result in greater capital depreciation than if the Fund had been unlevered. To the extent that the Fund is required or elects to reduce its leverage, the Fund may need to liquidate investments, including under adverse economic conditions which may result in capital losses potentially reducing returns to shareholders. There can be no assurance that a leveraging strategy will be successful during any period in which it is employed.

[a] Data as of June 30, 2015. Information is subject to change.

[b] See Note 7 in Notes to Financial Statements.

[c] On February 24, 2015, the Fund amended its credit agreement to extend the fixed rate financing terms by three years expiring in 2020, 2021 and 2022. If the amendment was reflected, the weighted average term on financing would be 5.7 years and the weighted average rate on financing will increase as the extended fixed-rate tranches become effective.

COHEN & STEERS QUALITY INCOME REALTY FUND, INC.

June 30, 2015

Top Ten Holdings[a]
(Unaudited)

Security	Value	% of Managed Assets
Simon Property Group	$115,431,850	6.4
Equity Residential	98,995,204	5.5
Vornado Realty Trust	62,514,633	3.5
SL Green Realty Corp.	58,934,886	3.3
UDR	55,369,204	3.1
Host Hotels & Resorts	46,577,160	2.6
Ventas	45,431,812	2.5
Essex Property Trust	42,369,100	2.3
Extra Space Storage	39,281,419	2.2
General Growth Properties	39,172,915	2.2

[a] Top ten holdings are determined on the basis of the value of individual securities held. The Fund may also hold positions in other types of securities issued by the companies listed above. See the Schedule of Investments for additional details on such other positions.

Sector Breakdown

(Based on Managed Assets)
(Unaudited)

COHEN & STEERS QUALITY INCOME REALTY FUND, INC.

SCHEDULE OF INVESTMENTS

June 30, 2015 (Unaudited)

		Number of Shares	Value
COMMON STOCK			
REAL ESTATE	107.1%		
DIVERSIFIED	7.0%		
American Assets Trust[a,b]		387,981	$ 15,212,735
BGP Holdings PLC (Australia) (EUR)[c,d,e]		3,927,678	0
Gramercy Property Trust		717,958	16,778,678
Vornado Realty Trust[a,b]		658,534	62,514,633
			94,506,046
HEALTH CARE	10.7%		
Health Care REIT[a]		561,221	36,832,934
Healthcare Trust of America, Class A		944,650	22,624,368
Omega Healthcare Investors		874,743	30,029,927
Physicians Realty Trust		617,890	9,490,790
Ventas[a,b]		731,709	45,431,812
			144,409,831
HOTEL	8.1%		
Extended Stay America[a,b]		816,698	15,329,422
Host Hotels & Resorts[a,b]		2,348,823	46,577,160
Strategic Hotels & Resorts[a,e]		1,491,784	18,080,422
Sunstone Hotel Investors		1,916,269	28,763,198
			108,750,202
INDUSTRIALS	4.4%		
Prologis[a,b]		490,520	18,198,292
QTS Realty Trust, Class A		470,387	17,145,606
STAG Industrial		1,172,542	23,450,840
			58,794,738
OFFICE	17.0%		
BioMed Realty Trust[a]		1,654,486	31,997,759
Boston Properties[a,b]		192,744	23,329,734
Brandywine Realty Trust[a]		1,066,603	14,164,488
Douglas Emmett[a,b]		828,297	22,314,321
Empire State Realty Trust, Class A[a,b]		667,962	11,395,432
Kilroy Realty Corp.		514,830	34,570,834
Liberty Property Trust[a,b]		1,002,327	32,294,976
SL Green Realty Corp.[a,b]		536,308	58,934,886
			229,002,430

See accompanying notes to financial statements.

COHEN & STEERS QUALITY INCOME REALTY FUND, INC.

SCHEDULE OF INVESTMENTS (Continued)

June 30, 2015 (Unaudited)

		Number of Shares	Value
RESIDENTIAL	21.7%		
APARTMENT	19.5%		
American Homes 4 Rent, Class A[a,b]		1,394,435	$ 22,366,737
Apartment Investment & Management Co.[a,b]		591,704	21,851,629
AvalonBay Communities[a,b]		136,572	21,833,766
Equity Residential[a,b]		1,410,791	98,995,204
Essex Property Trust[a,b]		199,384	42,369,100
UDR[a,b]		1,728,667	55,369,204
			262,785,640
MANUFACTURED HOME	2.2%		
Sun Communities		474,661	29,348,290
TOTAL RESIDENTIAL			292,133,930
SELF STORAGE	9.2%		
CubeSmart[a,b]		838,238	19,413,592
Extra Space Storage[a]		602,291	39,281,419
Public Storage[a,b]		203,604	37,538,470
Sovran Self Storage		319,558	27,772,786
			124,006,267
SHOPPING CENTERS	25.2%		
COMMUNITY CENTER	8.6%		
Brixmor Property Group[a]		798,625	18,472,196
DDR Corp.		1,902,879	29,418,509
Kimco Realty Corp.[a,b]		701,550	15,812,937
Ramco-Gershenson Properties Trust		1,276,543	20,833,182
Regency Centers Corp.[a,b]		515,720	30,417,166
			114,953,990
FREE STANDING	1.9%		
Spirit Realty Capital		2,694,158	26,052,508
REGIONAL MALL	14.7%		
General Growth Properties[a,b]		1,526,614	39,172,915
Macerich Co. (The)[a,b]		376,410	28,080,186
Pennsylvania REIT		703,220	15,006,715
Simon Property Group[a,b]		667,159	115,431,850
			197,691,666
TOTAL SHOPPING CENTERS			338,698,164

See accompanying notes to financial statements.

COHEN & STEERS QUALITY INCOME REALTY FUND, INC.

SCHEDULE OF INVESTMENTS (Continued)

June 30, 2015 (Unaudited)

		Number of Shares	Value
SPECIALTY	3.8%		
CyrusOne[a,b]		678,634	$ 19,985,771
Equinix		123,785	31,441,390
			51,427,161
TOTAL COMMON STOCK (Identified cost $1,067,805,615)			1,441,728,769
PREFERRED SECURITIES $25 PAR VALUE	18.5%		
BANKS FOREIGN	0.7%		
Barclays Bank PLC, 8.125%, Series V (United Kingdom)[a]		360,000	9,360,000
INDUSTRIALS	0.2%		
CHS, 6.75%		107,931	2,743,606
INSURANCE MULTI-LINE FOREIGN	0.8%		
ING Groep N.V., 7.05% (Netherlands)[a]		205,000	5,291,050
ING Groep N.V., 7.375% (Netherlands)		210,504	5,258,390
			10,549,440
REAL ESTATE	16.8%		
DIVERSIFIED	5.3%		
Colony Capital, 7.125%		131,850	3,066,831
Colony Financial, 8.50%, Series A[a]		364,975	9,438,254
DuPont Fabros Technology, 7.875%, Series A[a]		200,000	5,066,000
DuPont Fabros Technology, 7.625%, Series B[a]		280,000	7,148,400
EPR Properties, 9.00%, Series E (Convertible)[a]		251,000	8,157,500
Lexington Realty Trust, 6.50%, Series C ($50 Par Value)[a]		76,395	3,646,333
National Retail Properties, 6.625%, Series D		100,000	2,570,000
National Retail Properties, 5.70%, Series E		175,615	4,253,395
NorthStar Realty Finance Corp., 8.50%, Series D		158,522	3,950,368
NorthStar Realty Finance Corp., 8.75%, Series E		113,750	2,867,638

PS Business Parks, 5.75%, Series U	118,050	2,803,688
PS Business Parks, 5.70%, Series V	120,000	2,835,600
Urstadt Biddle Properties, 7.125%, Series F	106,600	2,799,316
Vornado Realty Trust, 6.625%, Series I	172,420	4,336,363
Vornado Realty Trust, 5.70%, Series K	136,024	3,231,930

See accompanying notes to financial statements.

COHEN & STEERS QUALITY INCOME REALTY FUND, INC.

SCHEDULE OF INVESTMENTS (Continued)

June 30, 2015 (Unaudited)

		Number of Shares	Value
Wells Fargo Real Estate Investment Corp., 6.375%, Series A		207,537	$ 5,308,796
			71,480,412
HEALTH CARE	0.2%		
Health Care REIT, 6.50%, Series J		92,700	2,356,434
HOTEL	2.9%		
Ashford Hospitality Trust, 9.00%, Series E[a]		405,000	10,663,650
Chesapeake Lodging Trust, 7.75%, Series A[a]		200,000	5,350,000
Hersha Hospitality Trust, 8.00%, Series B[a]		150,000	3,869,250
Hospitality Properties Trust, 7.125%, Series D		173,725	4,438,674
Pebblebrook Hotel Trust, 7.875%, Series A[a]		220,000	5,634,200
Pebblebrook Hotel Trust, 6.50%, Series C		160,000	4,057,600
Sunstone Hotel Investors, 8.00%, Series D[a]		180,000	4,734,000
			38,747,374
INDUSTRIALS	0.8%		
First Potomac Realty Trust, 7.75%, Series A[a]		130,000	3,328,000
Monmouth Real Estate Investment Corp., 7.625%, Series A[c]		200,000	5,100,000
Monmouth Real Estate Investment Corp., 7.875%, Series B		80,000	2,088,000
			10,516,000
OFFICE	1.6%		
American Realty Capital Properties, 6.70%, Series F[a,b]		621,453	14,921,086
Corporate Office Properties Trust, 7.375%, Series L[a]		160,000	4,208,000
Hudson Pacific Properties, 8.375%, Series B		90,000	2,313,000
			21,442,086
RESIDENTIAL	1.7%		

APARTMENT	1.0%		
Alexandria Real Estate Equities, 7.00%, Series D[a]		301,256	8,515,182
Apartment Investment & Management Co., 6.875%[a]		204,000	5,577,360
			14,092,542

See accompanying notes to financial statements.

COHEN & STEERS QUALITY INCOME REALTY FUND, INC.

SCHEDULE OF INVESTMENTS (Continued)

June 30, 2015 (Unaudited)

		Number of Shares	Value
MANUFACTURED HOME	0.7%		
Campus Crest Communities, 8.00%, Series A[a]		230,797	$ 5,712,226
Equity Lifestyle Properties, 6.75%, Series C		115,994	3,004,244
			8,716,470
TOTAL RESIDENTIAL			22,809,012
SHOPPING CENTERS	3.4%		
COMMUNITY CENTER	1.7%		
Cedar Realty Trust, 7.25%, Series B[a]		190,000	4,845,000
DDR Corp., 6.50%, Series J[a]		379,200	9,652,536
Kite Realty Group Trust, 8.25%, Series A		140,000	3,595,060
Regency Centers Corp., 6.625%, Series 6		195,558	4,996,507
			23,089,103
REGIONAL MALL	1.7%		
CBL & Associates Properties, 7.375%, Series D[a]		546,988	13,745,808
General Growth Properties, 6.375%, Series A		120,644	3,053,500
Pennsylvania REIT, 8.25%, Series A		159,000	4,226,220
Taubman Centers, 6.25%, Series K		78,767	2,003,045
			23,028,573
TOTAL SHOPPING CENTERS			46,117,676
SPECIALTY	0.9%		
Digital Realty Trust, 7.00%, Series E		207,000	5,290,920
Digital Realty Trust, 7.375%, Series H		200,000	5,386,000
TravelCenters of America LLC, 8.00%, due 12/15/29		89,675	2,349,485
			13,026,405
TOTAL REAL ESTATE			226,495,399
TOTAL PREFERRED SECURITIES $25 PAR VALUE (Identified cost $231,627,486)			249,148,445
PREFERRED SECURITIES CAPITAL	6.4%		

SECURITIES			
BANKS	0.8%		
Ally Financial, 7.00%, Series G, 144A[f]		1,501	1,524,219
Farm Credit Bank of Texas, 10.00%, Series I[a]		6,000	7,456,875
Huntington Bancshares, 8.50%, Series A (Convertible)		1,077	1,443,180
			10,424,274

See accompanying notes to financial statements.

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COHEN & STEERS QUALITY INCOME REALTY FUND, INC.

SCHEDULE OF INVESTMENTS (Continued)

June 30, 2015 (Unaudited)

		Number of Shares	Value
BANKS FOREIGN	3.6%		
Banco Bilbao Vizcaya Argentaria SA, 9.00% (Spain)		4,400,000	$ 4,741,000
Barclays PLC, 8.00% (United Kingdom) (EUR)		2,150,000	2,552,727
Barclays PLC, 8.25% (United Kingdom)[a]		4,001,000	4,232,898
Credit Agricole SA, 7.875%, 144A (France)[f]		2,332,000	2,404,625
Credit Suisse Group AG, 7.50%, 144A (Switzerland)[f]		2,291,000	2,392,391
Deutsche Bank AG, 7.50% (Germany)		4,000,000	3,995,000
Dresdner Funding Trust I, 8.151%, due 6/30/31, 144A (Germany)[a,f]		4,000,000	5,005,000
HBOS Capital Funding LP, 6.85% (United Kingdom)		5,200,000	5,320,453
Lloyds Banking Group PLC, 7.50% (United Kingdom)		4,000,000	4,130,000
Royal Bank of Scotland Group PLC, 7.648% (United Kingdom)		6,500,000	8,125,000
UBS Group AG, 7.00% (Switzerland)		2,800,000	2,849,000
UBS Group AG, 7.125% (Switzerland)		2,400,000	2,502,840
			48,250,934
FINANCE DIVERSIFIED FINANCIAL SERVICES	0.3%		
General Electric Capital Corp., 7.125%, Series A		4,000,000	4,620,000
INSURANCE	1.0%		
LIFE/HEALTH INSURANCE FOREIGN	0.4%		
La Mondiale Vie, 7.625% (France)		4,750,000	5,158,804
PROPERTY CASUALTY	0.3%		
Liberty Mutual Group, 7.80%, due 3/15/37, 144A[a,f]		3,525,000	4,185,937
PROPERTY CASUALTY FOREIGN	0.3%		

QBE Insurance Group Ltd., 6.75%, due 12/2/44 (Australia)		4,052,000	4,274,860
TOTAL INSURANCE			13,619,601
TELECOMMUNICATION	0.3%		
Qualitytech LP/QTS Finance Corp., 5.875%, due 8/1/22		3,998,000	4,032,983
UTILITIES	0.4%		
Enel SpA, 8.75%, due 9/24/73, 144A (Italy)[f]		4,250,000	4,892,812
TOTAL PREFERRED SECURITIES CAPITAL SECURITIES (Identified cost $76,335,736)			85,840,604

See accompanying notes to financial statements.

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COHEN & STEERS QUALITY INCOME REALTY FUND, INC.

SCHEDULE OF INVESTMENTS (Continued)

June 30, 2015 (Unaudited)

		Principal Amount	Value
CORPORATE BONDS REAL ESTATE SHOPPING CENTERS	0.2%		
General Shopping Finance Ltd., 10.00%, 144A (Cayman Islands)[c,f]		$4,157,000	$ 3,294,422
TOTAL CORPORATE BONDS (Identified cost $4,157,000)			3,294,422
		Number of Shares	
SHORT-TERM INVESTMENTS	0.5%		
MONEY MARKET FUNDS			
State Street Institutional Treasury Money Market Fund, 0.00%[g]		7,300,000	7,300,000
TOTAL SHORT-TERM INVESTMENTS (Identified cost $7,300,000)			7,300,000
TOTAL INVESTMENTS (Identified cost $1,387,225,837)	132.7%		1,787,312,240
LIABILITIES IN EXCESS OF OTHER ASSETS	(32.7)		(440,749,949)
NET ASSETS (Equivalent to $12.34 per share based on 109,161,402 shares of common stock outstanding)	100.0%		$1,346,562,291

See accompanying notes to financial statements.

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COHEN & STEERS QUALITY INCOME REALTY FUND, INC.

SCHEDULE OF INVESTMENTS (Continued)

June 30, 2015 (Unaudited)

Glossary of Portfolio Abbreviations

EUR Euro Currency

REIT Real Estate Investment Trust

Note: Percentages indicated are based on the net assets of the Fund.

[a] All or a portion of the security is pledged as collateral in connection with the Fund's credit agreement. $923,916,736 in aggregate has been pledged as collateral.

[b] A portion of the security has been rehypothecated in connection with the Fund's credit agreement. $390,591,652 in aggregate has been rehypothecated.

[c] Illiquid security. Aggregate holdings equal 0.6% of the net assets of the Fund.

[d] Fair valued security. This security has been valued at its fair value as determined in good faith under procedures established by and under the general supervision of the Fund's Board of Directors. Aggregate fair valued securities represent 0.0% of the net assets of the Fund.

[e] Non-income producing security.

[f] Resale is restricted to qualified institutional investors. Aggregate holdings equal 1.8% of the net assets of the Fund, of which 0.2% are illiquid.

[g] Rate quoted represents the annualized seven-day yield of the Fund.

See accompanying notes to financial statements.

COHEN & STEERS QUALITY INCOME REALTY FUND, INC.

STATEMENT OF ASSETS AND LIABILITIES

June 30, 2015 (Unaudited)

ASSETS:	
Investments in securities, at value (Identified cost $1,387,225,837)	$1,787,312,240
Cash	7,477,150
Receivable for:	
Investment securities sold	23,592,034
Dividends and interest	8,869,767
Other assets	203,695
Total Assets	1,827,454,886
LIABILITIES:	
Payable for:	
Credit agreement	460,000,000
Investment securities purchased	17,942,647
Dividends declared	1,430,088
Investment management fees	1,306,164
Interest expense	47,328
Administration fees	30,733
Directors' fees	293
Other liabilities	135,342
Total Liabilities	480,892,595
NET ASSETS	$1,346,562,291
NET ASSETS consist of:	
Paid-in capital	$ 928,418,295
Dividends in excess of net investment income	(32,928,924)
Accumulated undistributed net realized gain	50,986,609
Net unrealized appreciation	400,086,311
	$1,346,562,291
NET ASSET VALUE PER SHARE:	
($1,346,562,291 ÷ 109,161,402 shares outstanding)	$ 12.34
MARKET PRICE PER SHARE	$ 10.69
MARKET PRICE DISCOUNT TO NET ASSET VALUE PER SHARE	(13.37)%

See accompanying notes to financial statements.

COHEN & STEERS QUALITY INCOME REALTY FUND, INC.

STATEMENT OF OPERATIONS

For the Six Months Ended June 30, 2015 (Unaudited)

Investment Income:	
Dividend income	$ 26,342,665
Interest income	2,813,220
Rehypothecation income	47,451
Total Investment Income	29,203,336
Expenses:	
Investment management fees	8,309,672
Interest expense	4,280,169
Administration fees	319,282
Shareholder reporting expenses	181,439
Custodian fees and expenses	86,020
Line of credit fees	66,417
Professional fees	46,225
Directors' fees and expenses	45,673
Transfer agent fees and expenses	11,193
Registration and filing fees	4,557
Miscellaneous	84,218
Total Expenses	13,434,865
Net Investment Income	15,768,471
Net Realized and Unrealized Gain (Loss):	
Net realized gain (loss) on:	
Investments	61,339,273
Written option contracts	(1,932,326)
Foreign currency transactions	(1,595)
Net realized gain	59,405,352
Net change in unrealized appreciation (depreciation) on:	
Investments	(155,088,448)
Written option contracts	156,246
Foreign currency translations	37
Net change in unrealized appreciation (depreciation)	(154,932,165)
Net realized and unrealized loss	(95,526,813)
Net Decrease in Net Assets Resulting from Operations	$ (79,758,342)

See accompanying notes to financial statements.

COHEN & STEERS QUALITY INCOME REALTY FUND, INC.

STATEMENT OF CHANGES IN NET ASSETS (Unaudited)

	For the Six Months Ended June 30, 2015	For the Year Ended December 31, 2014
Change in Net Assets:		
From Operations:		
Net investment income	$ 15,768,471	$ 33,584,256
Net realized gain	59,405,352	133,519,840
Net change in unrealized appreciation (depreciation)	(154,932,165)	246,949,252
Net increase (decrease) in net assets resulting from operations	(79,758,342)	414,053,348
Dividends and Distributions from:		
Net investment income	(52,513,854)	(32,645,054)
Net realized gain		(50,686,150)
Total dividends and distributions to shareholders	(52,513,854)	(83,331,204)
Capital Stock Transactions:		
Decrease in net assets from Fund share transactions	(5,946,294)	
Total increase (decrease) in net assets	(138,218,490)	330,722,144
Net Assets:		
Beginning of period	1,484,780,781	1,154,058,637
End of period[a]	$ 1,346,562,291	$ 1,484,780,781

[a] Includes dividends in excess of net investment income and accumulated undistributed net investment income of $32,928,924 and $3,816,459, respectively.

See accompanying notes to financial statements.

COHEN & STEERS QUALITY INCOME REALTY FUND, INC.

STATEMENT OF CASH FLOWS

For the Six Months Ended June 30, 2015 (Unaudited)

Increase in Cash:	
Cash Flows from Operating Activities:	
Net decrease in net assets resulting from operations	$ (79,758,342)
Adjustments to reconcile net decrease in net assets resulting from operations to net cash provided by operating activities:	
Purchases of long-term investments	(324,019,978)
Net purchases, sales and maturities of short-term investments	(2,900,000)
Net amortization of premium	79,456
Proceeds from sales and maturities of long-term investments	377,099,251
Net decrease in dividends and interest receivable and other assets	817,950
Net decrease in interest expense payable, accrued expenses and other liabilities	(212,417)
Decrease in premiums received from written option contracts	(3,744,900)
Net change in unrealized appreciation on written option contracts	(156,246)
Net change in unrealized depreciation on investments	155,088,448
Net realized gain on investments	(61,339,273)
Cash provided by operating activities	60,953,949
Cash Flows from Financing Activities:	
Decrease in net assets from Fund share transactions	(5,946,294)
Dividends and distributions paid	(52,330,323)
Cash used for financing activities	(58,276,617)
Increase in cash	2,677,332
Cash at beginning of period	4,799,818
Cash at end of period	$ 7,477,150
Supplemental Disclosure of Cash Flow Information:	

During the six months ended June 30, 2015, interest paid was $4,280,107.

See accompanying notes to financial statements.

COHEN & STEERS QUALITY INCOME REALTY FUND, INC.

FINANCIAL HIGHLIGHTS (Unaudited)

The following table includes selected data for a share outstanding throughout each period and other performance information derived from the financial statements. It should be read in conjunction with the financial statements and notes thereto.

Per Share Operating Performance:	For the Six Months Ended June 30, 2015	For the Year Ended December 31, 2014	2013	2012	2011	2010
Net asset value, beginning of period	$ 13.54	$ 10.53	$ 10.91	$ 9.47	$ 9.56	$ 7.44
Income (loss) from investment operations:						
Net investment income	0.14[a]	0.31[a]	0.25[a]	0.28[a]	0.65	0.41
Net realized and unrealized gain (loss)	(0.87)	3.46	0.08[b]	1.88	(0.02)	2.25
Total from investment operations	(0.73)	3.77	0.33	2.16	0.63	2.66
Less dividends and distributions to shareholders from:						
Net investment income	(0.48)	(0.30)	(0.26)	(0.21)	(0.65)	(0.39)
Net realized gain		(0.46)	(0.46)	(0.51)	(0.07)	(0.16)
Total dividends and distributions to shareholders	(0.48)	(0.76)	(0.72)	(0.72)	(0.72)	(0.55)
Anti-dilutive effect from the issuance			0.00[c]	0.00[c]		

of reinvested shares						
Anti-dilutive effect from the repurchase of shares	0.01		0.01			0.01
Net increase (decrease) in net asset value	(1.20)	3.01	(0.38)	1.44	(0.09)	2.12
Net asset value, end of period	$ 12.34	$ 13.54	$ 10.53	$ 10.91	$ 9.47	$ 9.56
Market value, end of period	$ 10.69	$ 12.19	$ 9.48	$ 10.16	$ 8.47	$ 8.65
Total net asset value return[d]	5.13%[f]	37.57%	3.31%	23.32%	7.31%	37.80%
Total market value return[d]	8.64%	37.57%	0.13%	28.40%	6.07%	52.82%

See accompanying notes to financial statements.

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COHEN & STEERS QUALITY INCOME REALTY FUND, INC.

FINANCIAL HIGHLIGHTS (Unaudited) (Continued)

Ratios/Supplemental Data:	For the Six Months Ended June 30, 2015	For the Year Ended December 31, 2014	2013	2012	2011	2010
Net assets, end of period (in millions)	$1,346.6	$1,484.8	$1,154.1	$1,200.8	$1,042.1	$1,051.8
Ratio of expenses to average daily net assets (before expense reduction)	1.79%[g]	1.89%	2.00%	1.80%	1.90%	2.10%
Ratio of expenses to average daily net assets (net of expense reduction)	1.79%[g]	1.89%	2.00%	1.80%	1.87%	1.98%
Ratio of expenses to average daily net assets (net of expense reduction and	1.22%[g]	1.25%	1.31%	1.30%		

excluding
interest
expense)

	Total	Remainder of 2003	Year Ending December 31, 2004	2005	2006	2007	Thereafter
Long-term debt(1)	$902,921	$8,383	$	$	$	$1,538	$893,000
Operating leases	4,615	1,314	1,791	1,510			
Total	$907,536	$9,697	$1,791	$1,510	$	$1,538	$893,000

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(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 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 (unaudited) (in thousands):

			Year Ending December 31,				
	Total	Remainder of 2003	2004	2005	2006	2007	Thereafter
Vendor credit facilities(1)	$1,614,338	$1,614,338	$	$	$	$	$
Long-term debt(2)	76,775	13,405	19,005	20,341	22,679	1,345	
Operating leases	190,386	41,553	55,726	52,319	24,539	5,191	11,058
Chase earn-out(3)	41,000				41,000		
Total	$1,922,499	$1,669,296	$74,731	$72,660	$88,218	$6,536	$11,058

(1) Amounts shown for Cricket s senior secured vendor credit facilities do not include $49.9 million in amounts payable to its equipment vendors for the purchase of equipment and services. At March 31, 2003, 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 March 31, 2003, Leap had $225.0 million ($178.0 million, net of discount) principal outstanding under its 12.5% senior notes and approximately $502.0 million ($426.1 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 payments of principal and interest due under the notes generally are stayed during the pendency of the Chapter 11 proceedings.

We received gross sale proceeds of $225.0 million and $325.1 million upon the sale of our senior and senior discount notes, respectively, in February 2000. Each note has a principal amount at maturity of $1,000. Each senior discount note had an initial accreted value of $486.7. At March 31, 2003, the effective interest rates on the senior notes and senior discount notes were 15.8% and 16.3% per annum, respectively. The terms and conditions of the notes are summarized in our Annual Report on Form 10-K/ A for the year ended December 31, 2002, as filed with the SEC on April 15, 2003, and amended on April 16, 2003, and are more

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fully described in the indenture for the notes, which is filed with the SEC as an exhibit to our Annual Report on Form 10-K for the year ended December 31, 2002.

Events of default under the notes include, among others, Leap s failure to make payments under the notes and certain other debt when due, Leap s failure to comply with covenants or other provisions of the indenture, an event of default occurs in respect of more than $5.0 million of other indebtedness of Leap or its subsidiaries that results in the acceleration of that indebtedness before its maturity, or bankruptcy or insolvency of Leap or some of its subsidiaries. Upon the occurrence of the event of default arising from bankruptcy of Leap, all outstanding notes became immediately due and payable. No event of default under the notes existed until Leap s Chapter 11 filing.

Vendor Financing

Cricket has entered into purchase agreements and senior secured credit facilities with each of Lucent, Nortel and Ericsson for the purchase of network infrastructure products and services and the financing of these purchases plus interest expense and other costs and origination and commitment fees related to the credit facilities. Cricket is currently in default under each of its senior secured vendor credit facilities, and as a result of the bankruptcy filings, the indebtedness under these facilities has been accelerated. At March 31, 2003, Cricket had $1,614.3 million ($1,579.1 million, net of discount) outstanding under its senior secured vendor credit facilities. In addition, at March 31, 2003, the Cricket companies had $49.9 million payable to its equipment vendors for the purchase of equipment and services. The senior secured vendor credit facilities ceased accruing interest as of the Petition Date. Payments of principal, interest and fees due under the senior secured vendor credit facilities and the purchase agreements generally are stayed during the pendency of the Chapter 11 proceedings.

Because of the events of default under the senior secured credit facilities, each of the lenders under those facilities terminated their commitments under the facilities. The defaults also provide the credit facility lenders with various rights under their credit agreements and related security agreements, including the right to foreclose on the collateral pledged to secure the outstanding loans, which includes all of the stock and assets of the Cricket companies (other than the stock of Cricket Communications Holdings, Inc.), subject to the requisite approval of the Bankruptcy Court.

The vendor financing facilities provide that principal payments under the credit agreements were scheduled to begin in December 2002 for Lucent and are scheduled to begin in December 2003 for Nortel and Ericsson, with a final maturity in June 2007 for Lucent and in September 2008 for Nortel and Ericsson. Repayment of principal is required in 20 quarterly payments, with the annual principal repayments totaling 10%, 15%, 20%, 25% and 30% of the principal outstanding at the end of the availability period, respectively, during the first through fifth years following the end of the scheduled availability period. Cricket did not make the first principal payment due in December 2002 under the Lucent credit agreement, which constituted an event of default under the agreement. Borrowings under the senior secured vendor credit agreements at March 31, 2003 had a weighted-average effective interest rate of 10.1% per annum.

Remaining fees payable by Cricket under the senior secured vendor credit agreements include origination fees totaling $49.8 million. The origination fees are currently payable to the vendors, as the availability period under all of the credit facilities ended upon termination of the commitments in September 2002. At March 31, 2003, origination fees totaling $49.8 million were accrued, of which $10.0 million had been paid through borrowings under the senior secured vendor credit facilities. The debt discount that results from the origination fees is recorded as a direct reduction of the vendor debt and amortized as interest expense over the terms of the respective credit agreements using the effective interest method.

Each of the credit agreements contain various covenants and conditions, including minimum levels of customers and covered potential customers that must increase over time, minimum revenues, minimum EBITDA, limits on annual capital expenditures, dividend restrictions (other than the Nortel agreement) and other financial ratio tests.

These covenants, conditions and events of default are more fully described in the credit agreements, as amended, which are filed with the SEC as exhibits to our Annual Report on Form 10-K.

Debt Obligations to the FCC and Note Payable

The Cricket companies have assumed debt obligations to the FCC and a third party as part of the purchase price for wireless licenses. The terms of the notes include interest rates ranging from 6.25% to 9.75% per annum and quarterly principal and interest payments until maturity through July 2007. The notes were discounted using management s best estimate of the prevailing market interest rate at the time of purchase of the wireless licenses ranging from 9.75% to 10.75% per annum. At March 31, 2003, the weighted-average effective interest rate for the Cricket companies debt obligations to the FCC and a third party was 9.9% per annum. Payments of principal and interest under these obligations are generally stayed during the pendency of the Chapter 11 proceedings. No event of default under the notes existed until Leap s and Cricket s Chapter 11 filings.

In April 2002, Leap completed the exchange of certain wireless licenses with a third party. Pursuant to the agreement, the third party assumed FCC debt totaling $8.4 million related to certain of the wireless licenses provided in the exchange. In consideration for the third party s assumption of the FCC debt, Leap provided to the third party a note payable totaling $8.4 million, which is secured by a pledge of the stock of a Leap subsidiary that owns certain wireless licenses not used in the Cricket business. 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 balance. The note holder has also notified Leap that it intends to foreclose on the collateral. Any such foreclosure action is currently prohibited by the automatic stay under Chapter 11.

Operating Activities

Cash provided by operating activities was $29.2 million during the three months ended March 31, 2003 compared to cash used in operating activities of $100.9 million in the corresponding period of the prior year. The increase was primarily attributable to a decrease in net loss, adjusted for non-cash items, of $106.7 million, combined with a change in working capital of $23.4 million.

Investing Activities

Cash used in investing activities was $0.2 million during the three months ended March 31, 2003 compared to $41.0 million in the corresponding period of the prior year. Investing activities during the three months ended March 31, 2003 consisted primarily of the sale and maturity of investments of $25.3 million, offset by the purchase of investments of $22.4 million, $1.5 million in proceeds from the sale of a wireless license and the purchase of property and equipment primarily for the improvement of the coverage and capacity of our existing networks of $4.2 million. Investing activities during the three months ended March 31, 2002 consisted primarily of the sale and maturity of investments of $100.1 million, offset by the purchase of investments of $99.4 million, the purchase of restricted cash equivalents of $21.5 million, the partial refund of our deposit for Auction 35 of $14.7 million and the purchase of property and equipment primarily for the continued build out of our networks of $35.3 million.

Financing Activities

Cash used in financing activities during the three months ended March 31, 2003 was $4.4 million and consisted entirely of payments on our debt obligations to the FCC. Cash provided by financing activities in the corresponding period of the prior year was $19.6 million, and consisted primarily of cash proceeds from our vendor loan facilities of $25.9 million for the purchase of property and equipment and $0.3 million in proceeds from the issuance of common stock, partially offset by repayments of notes payable and long-term debt of $0.6 million and $5.9 million in debt financing costs related to the March 2002 amendments to our vendor loan facilities.

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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, if required, 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

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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 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, creditors of Leap and Cricket have stated that there will be no value flowing to Leap as a result of its ownership interest in the Cricket companies, that unsecured claims against Leap will be satisfied at a fraction of their face value, and that there will be 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 2. Management s Discussion and Analysis of Results of Operations and Financial Condition Liquidity and Capital Resources.

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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. 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 stock ownership 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.

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 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 Leap will continue to be a publicly-held company that after emerging from Chapter 11, or 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.

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 $133.5 million for the three months ended March 31, 2003, $664.8 million in the year ended December 31, 2002, $483.3 million in the year ended December 31,

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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 value 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 May 9, 2003, was $0.06 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. Should MCG undertake sustained resales of shares of Leap common stock 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 virtually unlimited calls from any area

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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.

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.

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.

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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 average revenue per user and increasing handset subsidy costs, which caused our costs per gross addition 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 supplying us and we are unable to secure alternate suppliers and trade creditors, our business would be materially adversely affected.

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We May Experience Difficulties In Maintaining or Expanding 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 necessary to maintain and expand our networks. 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 or expansion of 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 and raise the costs of construction projects. 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 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. 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 future wireless use by Cricket customers exceeds the capacity of our 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 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 annually 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.

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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 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, 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 Leap s Annual Report on Form 10-K/A for the year ended December 31, 2002.

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

Each of our wireless 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 wireless license, or make a showing of substantial service in that area, within five and/or ten years after the wireless 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 satisfied are identified in the table under the heading Business Cricket Business Operations Wireless Licenses included in Item 1 of our Annual Report on Form 10-K/A for the year ended December 31, 2002. We intend to either raise additional resources to fund the buildouts or sell or otherwise transfer the material wireless licenses for which we have not yet met 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 wireless licenses before the deadline. Failure to comply with the FCC s buildout requirements could cause the revocation of some of our wireless licenses or the imposition of fines and/or other sanctions. No adjustments have been recorded in the financial statements regarding the potential inability to satisfy the buildout requirements for the wireless licenses that expire in the near future. Any subsequent expiration of these wireless 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 3. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk. The Company s variable rate long-term debt ceased accruing interest as of the Petition Date as a result of the Company s Chapter 11 filing. Payments of principal and interest due under the variable rate long-term debt are generally stayed during the pendency of the Chapter 11 proceedings.

Hedging Policy. As required by our vendor loan agreements, Leap maintains interest rate cap agreements which fix or limit the interest cost to Cricket and the Leap subsidiaries that guarantee the vendor loans (other than Cricket Communications Holdings, Inc.) to a portion of their long-term indebtedness sufficient to cause 50% of their consolidated long-term indebtedness to be comprised of a combination of (a) indebtedness bearing interest at a fixed rate and (b) indebtedness covered by the interest rate cap agreements. These agreements are accounted for at fair value and marked to fair value at each period end. The interest rate cap agreements do not qualify for hedge accounting under SFAS No. 133, and Leap does not engage in any other hedging activities against foreign currency exchange rate or interest rate risks.

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Item 4. Controls And Procedures

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Company s Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms, and that such information is accumulated and communicated to the Company s management, including the Company s Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives.

Within 90 days prior to the filing date of this report, the Company carried out an evaluation, under the supervision and with the participation of the Company s management, including the Company s Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company disclosure controls and procedures. Based on the foregoing, the Company s Chief Executive Officer and Chief Financial Officer concluded that, as of the date of their evaluation, the Company s disclosure controls and procedures were effective, except as noted below.

Our wireless network assets are situated at approximately 2,500 different locations. From time to time, we relocate certain of these assets in order to optimize our network coverage and asset utilization. We are in the process of improving our internal controls over the tracking and valuation of our network assets in order to be able to monitor and account for the movement or abandonment of assets on a timely basis.

A significant portion of our inventory is located at facilities managed by third-party dealers and distributors. We are in the process of improving our internal controls over the tracking and valuation of this inventory, including processes to cycle count or otherwise verify quantities on a systematic basis in order to ensure the reasonable accuracy of our inventory balances.

During the latter part of 2002, we adopted new pricing and payment plans that require us to recognize revenue for different classes of customers at different points in time. We are in the process of implementing changes to our information systems to allow us to systematically recognize revenue in accordance with the provisions of the new plans. As a result of reviewing the impact of the new pricing and payment plans and related customer activity, the Company has recently discovered and corrected computer programming errors in the software that classified customers as reactivating a prior service rather than activating a new service.

Management believes that these matters have not had a material impact on the Company s condensed consolidated financial statements through March 31, 2003.

There have been no significant changes in the Company s internal controls or in other factors that could significantly affect the internal controls subsequent to the date the Company completed its evaluation.

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PART II

OTHER INFORMATION

Item 1. 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 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 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 Part I of this report and in Leap s Annual Report on Form 10-K/ A for the year ended December 31, 2002.

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. The automatic stay of the bankruptcy code stays the claim against Leap unless the plaintiffs obtain a court order to proceed against the company. However, plaintiffs may continue to pursue the individual defendants and may raise additional claims. If Leap and/or the individual defendants do not prevail on the existing or future claims, the amounts involved could result in one or more material claims in against Leap in the Chapter 11 proceeding.

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

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remedies. Leap believes the plaintiff lacked a right to bring the claim and that the claim is without merit. In addition, we believe that upon the filing of the Chapter 11, plaintiff s claim became an asset of Leap as debtor in possession. Leap intends to defend the case vigorously.

Leap also refers readers of this report to those legal proceedings described in its Annual Report on Form 10-K/ A for the year ended December 31, 2002 under Item 3.

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 2. ***Changes in Securities and Use of Proceeds***

None

Item 3. ***Defaults Upon Senior Securities***

(a) 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, and the obligations under those notes have been accelerated. As of the date of this report, Leap had $225.0 million ($178.0 million, net of discount) principal outstanding under its 12.5% senior notes and approximately $502.0 million ($426.1 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 payments of principal and interest due under the notes generally are stayed during the pendency of the Chapter 11 proceedings. See Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources.

Leap s wholly owned subsidiary, Cricket Communications, Inc., has entered into purchase agreements and senior secured credit facilities with each of Lucent Technologies Inc., Nortel Networks Inc. and Ericsson Credit AB for the purchase of network infrastructure products and services and the financing of these purchases plus interest expense and other costs and origination and commitment fees related to the credit facilities. Cricket is currently in default under each of its 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, and as a result of the Chapter 11 proceedings, the indebtedness under these facilities has been accelerated. As of the date of filing this report, Cricket is in default under the senior secured vendor credit facilities in the aggregate amounts of $1,614.3 million in principal, interest and fees. The senior secured vendor credit facilities ceased accruing interest as of the Petition Date. Payments of principal, interest and fees due under the senior secured vendor credit facilities and the purchase agreements generally are stayed during the pendency of the Chapter 11 proceedings. See Part I. Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources.

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

None.

Item 5. ***Other Information***

None.

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Item 6. ***Exhibits and Reports on Form 8-K***

(a) *Index to Exhibits:*

Exhibit **Number**	**Description of Exhibit**
4.6.3(1)	Limited Waiver, dated as of February 20, 2003, among the Registrant, Cricket Communications Holdings, Inc., Telephone Entertainment Network, Inc., Backwire.com, Inc. and U.S. Bank National Association (successor to State Street Bank and Trust Company).
10.13.1(1)	Amendment No. 1 to Amended and Restated System Equipment Purchase Agreement, effective as of February 7, 2003, by and between Cricket Communications, Inc. and Nortel Networks Inc. (including exhibits thereto).
10.32(1)	Form of Retention Bonus and Severance Benefits Agreement.
99.1*	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
99.2*	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(1) Filed as an exhibit to Leap s Amendment No. 1 to Annual Report on Form 10-K/A for the fiscal year ended December 31, 2002, as filed with the SEC on April 16, 2003, and incorporated herein by reference.

* These certifications are being furnished solely to accompany this quarterly report pursuant to 18 U.S.C. § 1350, and are not being filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and are not to be incorporated by reference into any filing of Leap Wireless International, Inc., whether made before or after the date hereof, regardless of any general incorporation language in such filing.

(b) *Reports on Form 8-K.*

(1) Current Report on Form 8-K, dated April 13, 2003, filed with the SEC on April 14, 2003. Item 3 reported, relating to Leap and substantially all of its subsidiaries having 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.

(2) Current Report on Form 8-K, dated April 15, 2003, filed with the SEC on April 21, 2003. Items 7 and 12 reported, pursuant to which Leap furnished to the SEC a press release it issued regarding its results of operations for the fourth quarter and year ended December 31, 2002.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

LEAP WIRELESS INTERNATIONAL, INC.

Date: May 15, 2003	By: /s/ HARVEY P. WHITE
	Harvey P. White Chief Executive Officer and Director (Principal Executive Officer)
Date: May 15, 2003	By: /s/ STEWART D. HUTCHESON
	Stewart D. Hutcheson Chief Financial Officer (Principal Financial Officer)

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CERTIFICATIONS

I, Harvey P. White, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Leap Wireless International, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

   a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

   b) evaluated the effectiveness of the registrant s disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the Evaluation Date); and

   c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant s other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant s auditors and the audit committee of the registrant s board of directors (or persons performing the equivalent function):

   a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant s ability to record, process, summarize and report financial data and have identified for the registrant s auditors any material weaknesses in internal controls; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant s internal controls; and

6. The registrant s other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

DATE: May 15, 2003

By: /s/ HARVEY P. WHITE

Harvey P. White
Chief Executive Officer

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I, Stewart D. Hutcheson, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Leap Wireless International, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

   a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

   b) evaluated the effectiveness of the registrant s disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the Evaluation Date); and

   c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant s other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant s auditors and the audit committee of the registrant s board of directors (or persons performing the equivalent function):

   a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant s ability to record, process, summarize and report financial data and have identified for the registrant s auditors any material weaknesses in internal controls; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant s internal controls; and

6. The registrant s other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

DATE: May 15, 2003

By: /s/ STEWART D. HUTCHESON

Stewart D. Hutcheson
Chief Financial Officer