

LEAP WIRELESS INTERNATIONAL INC

Form 8-K/A

October 25, 2001

Table of Contents

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

**Form 8-K/A
(Amendment No. 1)**

**Current Report
Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934**

Date of Report (Date of earliest event reported): October 24, 2001

Leap Wireless International, Inc.
(Exact name of registrant as specified in its charter)

Delaware
(State or Other Jurisdiction
of Incorporation)

0-29752
(Commission File Number)

33-0811062
(I.R.S. Employer Identification No.)

10307 Pacific Center Court, San Diego, California
(Address of Principal Executive Offices)

92121
(Zip Code)

Registrant's telephone number, including area code: (858) 882-6000

TABLE OF CONTENTS

Item 5. Other Events.
SIGNATURE

Table of Contents

This Amendment No. 1 to Current Report on Form 8-K/A is filed by Leap Wireless International, Inc., a Delaware corporation (Leap or the Company), to correct the following information contained in the supplementary disclosures included in the Company s Form 8-K dated October 24, 2001 reporting results for the third quarter of fiscal year 2001:

- (a) The entry in the column headed Launched as of 9/30/01 in the Supplementary Disclosures, 40 Market Plan table, with respect to Salem, Oregon, which was launched 10/18/01; and
- (b) The Licensed POPs (2001 est.) reported in the Supplementary Disclosures, 40 Market Plan table, replacing 1998 POP estimates with 2001 POP estimates.

Item 5. Other Events.

On October 24, 2001, Leap announced its financial and certain other operational results for the quarter ended September 30, 2001 as set forth below.

The Company reported that during the quarter, it added more than one quarter million net new customers to its Cricket service, bringing the total customers using Cricket service to more than 724,000 at the end of the third fiscal quarter of 2001, representing a 90% quarter-over-quarter increase in net additions. Leap ended the quarter with service offered in 25 markets across the country.

Cricket operational highlights from the third quarter of 2001 included:

Leap launched an additional five markets Phoenix, Arizona; Fayetteville, Arkansas; Denver, Colorado; Boise, Idaho; and Dayton, Ohio bringing the total potential customers covered by Cricket service to approximately 19.5 million (2001 POPs) at the end of the quarter. After the end of the quarter, Leap launched Cricket service in Omaha, Nebraska and Salem, Oregon and expects to launch service in its Reno, Nevada and Toledo, Ohio markets on October 25, 2001.

Billed average revenue per user per month (ARPU) across all of Leap s operational markets rose to approximately \$37, compared to the approximately \$36 reported for the second quarter of 2001.

Overall cost per gross customer addition (CPGA), including pre-launch marketing expenses, was approximately \$243.

Key financial performance measures for the third fiscal quarter were as follows:

Total operating revenues for Leap s U.S. operations were \$66.7 million, an increase of \$18.9 million over the \$47.8 million reported for the previous quarter. Service revenue rose to \$57.2 million, an increase of 45 percent over that reported for the second fiscal quarter of 2001.

Consolidated operating loss before interest, taxes, depreciation and amortization (EBITDA), was \$85.3 million, an increase from the EBITDA loss of \$56.6 million reported for the previous quarter. Cricket s rapid growth during the third quarter was the primary factor in the increase in the consolidated EBITDA loss during the third quarter.

Leap s consolidated net loss was \$160.7 million, or \$4.43 per share, compared to a net loss of \$128.5 million, or \$3.91 per share, in the prior quarter, also largely as a result of Cricket s rapid growth during the third quarter. Of the \$4.43 net loss per share reported in the third quarter, \$0.39 was the result of Leap s share of losses for Pegaso Telecomunicaciones, S.A. de C.V. (Pegaso), the Mexican wireless company in which Leap has a 20% stake, recognized under the equity method of accounting.

Table of Contents

Leap's total cash and cash equivalents, investments, and deposits on pending wireless license acquisitions as of September 30, 2001 were \$430.7 million.

Leap's property and equipment, net of depreciation, rose to \$858.3 million at September 30, 2001, an increase of \$171.8 million over that reported at June 30, 2001.

Other Highlights:

Slice Milestones During the third quarter, Leap expanded both the markets served and the content provided by Slice, the first product offered by its subsidiary, the Telephone Entertainment Network, Inc. Slice service delivers short voice clips of local news and events, movie reviews, sports, weather, traffic, bargains and more directly to customers wireless phones before their local calls connect. During the third quarter, Leap launched Slice in two new markets, Phoenix, Arizona and Albuquerque, New Mexico, bringing the total markets in which this service is offered to four, including Chattanooga and Nashville, Tennessee, where Slice was launched in the second quarter of 2001. Leap has signed an agreement between the Telephone Entertainment Network and Metro Networks, a wholly-owned subsidiary of Westwood One, which is a leading provider of content and information. Under the agreement, Westwood One provides Leap with feeds of regularly updated local and national content for its Slice customers, including news, traffic, weather and sports updates tailored to specific local markets. Leap has added advertisers using Slice service to promote their businesses, ending the quarter with a total of 62 advertisers, including major national brands as well as regional and local retail locations, in the four markets in which Slice is offered. During the third fiscal quarter, Leap also received its first subscriber based revenue from Slice, which is currently available to Cricket customers in the four markets in which Slice is offered for \$2.95 per month after a 60-day free trial period. At the end of the third quarter, the average conversion rate of customers after their 60-day free trial was approximately 33 percent.

Spectrum During the third fiscal quarter, Leap, as part of its plan to maximize the value of its spectrum assets, announced that it signed an agreement to sell 15 MHz of its spectrum in Salt Lake City and Provo, Utah, to Cingular Wireless for \$140 million in cash. Leap will retain 15 MHz of spectrum, which Leap believes is adequate for its needs in this market. In October, the Federal Communications Commission (FCC) approved the transfer of these licenses to Cingular Wireless and Leap expects this sale to close in the fourth quarter.

International Operations Pegaso reported that its customer base grew to more than 791,000 at the end of September 2001. During the third quarter, Leap invested an additional \$10.5 million in Pegaso as part of the \$29.4 million Leap committed to invest into the Mexican wireless carrier to support its future growth and working capital needs. This additional investment brings Leap's total investment in Pegaso under this additional commitment to \$20.5 million.

Table of Contents

Forward-Looking Statements

Except for the historical information contained herein, this report contains forward-looking statements reflecting management's current forecast of certain aspects of Leap's future. Some forward-looking statements can be identified by forward-looking words such as believe, may, could, will, estimate, continue, anticipate, intend, seek, plan, expect, should, would and similar expressions. This report is information, which we have assessed but which by its nature is dynamic and subject to rapid and even abrupt changes. Our actual results could differ materially from those stated or implied by such forward-looking statements due to risks and uncertainties associated with our business. Factors that could cause actual results to differ include, but are not limited to: changes in the economic conditions of the various markets our subsidiaries serve which could adversely affect the market for wireless services; our ability to access capital markets; a failure to meet the operational, financial or other covenants contained in our credit facilities; our ability to rollout networks in accordance with our plans, including receiving equipment and backhaul and interconnection facilities on schedule from third parties; failure of network systems to perform according to expectations; the effect of competition; the acceptance of our product offering by our target customers; our ability to retain customers; our ability to maintain our cost, market penetration and pricing structure in the face of competition; technological challenges in developing wireless information services and customer acceptance of such services if developed; our ability to integrate the businesses and technologies we acquire; rulings by courts or the FCC adversely affecting our rights to own and/or operate certain wireless licenses; and other factors detailed in the section entitled Risk Factors included in our Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2001 and in our other SEC filings. The forward-looking statements should be considered in the context of these risk factors. Investors and prospective investors are cautioned not to place undue reliance on such forward-looking statements. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Table of Contents**LEAP WIRELESS INTERNATIONAL, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS****(In Thousands)**

| | September 30, 2001 | December 31, 2000 |
|---|-------------------------------|------------------------------|
| | (Unaudited) | |
| Assets | | |
| Cash and cash equivalents | \$ 300,303 | \$ 338,878 |
| Restricted cash equivalents | | 13,575 |
| Short-term investments | 42,189 | 199,106 |
| Inventories | 34,831 | 9,032 |
| Notes receivable, net | 33,284 | 138,907 |
| Other current assets | 15,833 | 12,746 |
| | <hr/> | <hr/> |
| Total current assets | 426,440 | 712,244 |
| Property and equipment, net | 858,258 | 430,193 |
| Investment in unconsolidated wireless operating company | | 34,691 |
| Wireless licenses, net | 687,634 | 265,635 |
| Goodwill and other intangible assets, net | 45,298 | 30,297 |
| Restricted investments | 54,182 | 51,896 |
| Deposits for wireless licenses | 85,000 | 91,772 |
| Other assets | 31,458 | 30,679 |
| | <hr/> | <hr/> |
| Total assets | \$2,188,270 | \$1,647,407 |
| | <hr/> | <hr/> |
| Liabilities and Stockholders' Equity | | |
| Accounts payable and accrued liabilities | \$ 72,922 | \$ 58,735 |
| Other current liabilities | 103,234 | 65,690 |
| | <hr/> | <hr/> |
| Total current liabilities | 176,156 | 124,425 |
| Long-term debt | 1,510,161 | 897,878 |
| Other long-term liabilities | 66,173 | 41,846 |
| | <hr/> | <hr/> |
| Total liabilities | 1,752,490 | 1,064,149 |
| | <hr/> | <hr/> |
| Stockholders' equity: | | |
| Preferred stock | | |
| Common stock | 3 | 3 |
| Additional paid-in capital | 1,147,032 | 893,401 |
| Unearned stock-based compensation | (6,201) | (10,019) |
| Accumulated deficit | (706,555) | (302,898) |
| Accumulated other comprehensive income | 1,501 | 2,771 |
| | <hr/> | <hr/> |
| Total stockholders' equity | 435,780 | 583,258 |
| | <hr/> | <hr/> |
| Total liabilities and stockholders' equity | \$2,188,270 | \$1,647,407 |
| | <hr/> | <hr/> |

Table of Contents**LEAP WIRELESS INTERNATIONAL, INC.**

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)
(In Thousands, Except Per Share Data)

| | Three Months Ended | | Nine Months Ended | |
|---|--------------------|-------------|-------------------|------------|
| | September 30, | | | |
| | 2001 | 2000 | 2001 | 2000 |
| Revenues: | | | | |
| Service revenues | \$ 57,240 | \$ 5,296 | \$ 122,449 | \$ 31,542 |
| Equipment revenues | 9,453 | 2,244 | 28,843 | 4,513 |
| | 66,693 | 7,540 | 151,292 | 36,055 |
| Operating expenses: | | | | |
| Cost of service | (27,297) | (5,506) | (57,003) | (14,276) |
| Cost of equipment | (53,197) | (4,883) | (116,632) | (30,845) |
| Selling and marketing | (32,181) | (4,113) | (70,982) | (15,730) |
| General and administrative | (39,290) | (15,061) | (96,691) | (57,445) |
| Depreciation and amortization | (33,494) | (3,573) | (68,792) | (17,251) |
| | (185,459) | (33,136) | (410,100) | (135,547) |
| Operating loss | (118,766) | (25,596) | (258,808) | (99,492) |
| Equity in net loss of investments in and loan receivable from unconsolidated wireless operating companies | (14,264) | (25,249) | (57,562) | (72,001) |
| Interest income | 4,850 | 16,934 | 23,623 | 33,938 |
| Interest expense | (44,258) | (28,437) | (123,709) | (80,908) |
| Foreign currency transaction gains (losses) | 136 | 1,378 | (1,139) | 13,099 |
| Minority interest | | | | 1,762 |
| Gain on sale of subsidiary | | | | 313,432 |
| Gain on issuance of stock by unconsolidated wireless operating company | | 6,898 | | 32,602 |
| Other income, net | 12,405 | | 15,981 | 216 |
| | (159,897) | (54,072) | (401,614) | 142,648 |
| Income (loss) before income taxes and extraordinary items | (159,897) | (54,072) | (401,614) | 142,648 |
| Income taxes | (845) | | (2,043) | (34,548) |
| | (160,742) | (54,072) | (403,657) | 108,100 |
| Income (loss) before extraordinary items | (160,742) | (54,072) | (403,657) | 108,100 |
| Extraordinary loss on early extinguishment of debt | | | | (4,737) |
| | \$ (160,742) | \$ (54,072) | \$ (403,657) | \$ 103,363 |
| | \$ (4.43) | \$ (2.04) | \$ (12.27) | \$ 4.35 |
| Basic net income (loss) per common share: | | | | |
| Income (loss) before extraordinary items | \$ (4.43) | \$ (2.04) | \$ (12.27) | \$ 4.35 |
| Extraordinary loss | | | | (0.19) |
| | \$ (4.43) | \$ (2.04) | \$ (12.27) | \$ 4.16 |
| Net income (loss) | \$ (4.43) | \$ (2.04) | \$ (12.27) | \$ 4.16 |

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| | | | | |
|---|-----------|-----------|------------|---------|
| Diluted net income (loss) per common share: | | | | |
| Income (loss) before extraordinary items | \$ (4.43) | \$ (2.04) | \$ (12.27) | \$ 3.36 |
| Extraordinary loss | | | | (0.15) |
| Net income (loss) | \$ (4.43) | \$ (2.04) | \$ (12.27) | \$ 3.21 |
| Shares used in per share calculations: | | | | |
| Basic | 36,310 | 26,524 | 32,909 | 24,826 |
| Diluted | 36,310 | 26,524 | 32,909 | 32,134 |

Table of Contents**LEAP WIRELESS INTERNATIONAL, INC.****SUPPLEMENTARY DISCLOSURES
OPERATIONAL METRICS
(UNAUDITED)**

| | As of and for the Quarter Ended | | |
|---|---------------------------------|------------------|-------------------|
| | September 30, 2001 | June 30, 2001 | March 31, 2001 |
| Gross additions | 301,189 | 179,883 | 163,929 |
| Deactivations | 48,792 | 47,026 | 17,364 |
| Net additions | 252,397 | 132,857 | 146,565 |
| End of period customers | 724,458 | 472,061 | 339,204 |
| Weighted average customers | 560,544 | 394,124 | 262,048 |
| CPGA | \$ 243 | \$ 245 | \$ 214 |
| Equipment subsidy associated with customer gross additions (in 000s) | \$ 42,106 | \$ 23,063 | \$ 18,636 |
| Selling & marketing associated with customer gross additions (in 000s) | \$ 31,209 | \$ 20,985 | \$ 16,504 |
| Covered POPs (2001 estimate in millions) | 19.5 | 12.9 | 9.5 |
| Penetration of covered POPs | 3.7% | 3.7% | 3.6% |
| Cumulative markets launched | 25 | 20 | 14 |
| Cumulative BTAs launched | 28 | 23 | 17 |
| Cell sites in service | 1,562 | 1,132 | 753 |

Table of Contents**LEAP WIRELESS INTERNATIONAL, INC.****SUPPLEMENTARY DISCLOSURES
40 MARKET PLAN**

| State | Market | BTA | Launched as of 9/30/01 | Licensed POPs (2001 est.) (1) | Covered POPs (2001 est.) (1) |
|--------------|-------------------------------|------------------------------|-----------------------------------|--|---|
| AR | Central Arkansas | Little Rock | X | 971,470 | 413,673 |
| | | Pine Bluff | | 154,091 | 64,331 |
| | Fort Smith | Hot Springs | X | 140,502 | 49,263 |
| | | Fort Smith(2) | X | 330,029 | 112,735 |
| | | Jonesboro | | 182,637 | 93,122 |
| AZ | Northwest Arkansas | Fayetteville(3) | X | 332,638 | 182,644 |
| | Phoenix | Phoenix(4) | X | 3,539,920 | 2,951,523 |
| CA | Modesto-Merced | Tucson | X | 857,246 | 756,722 |
| | | Modesto | | 507,765 | 348,579 |
| | Merced | | 230,409 | 153,741 | |
| CO | Visalia | Visalia | | 503,948 | 352,844 |
| | Denver | Denver/Boulder | X | 2,759,099 | 2,279,310 |
| | North Colorado | Ft. Collins | | 256,324 | 213,919 |
| | | Greeley | | 184,429 | 145,495 |
| GA | Pueblo | Pueblo | X | 316,376 | 127,964 |
| | Columbus | Columbus | X | 366,390 | 182,420 |
| | Macon | Macon | X | 668,632 | 229,179 |
| ID | Boise | Boise | X | 596,255 | 369,827 |
| KS | Wichita | Wichita | X | 660,794 | 512,300 |
| MI | Kalamazoo and Battle Creek | Kalamazoo | | 379,353 | 181,103 |
| | | Battle Creek | | 241,424 | 78,530 |
| | Flint | Flint | | 508,496 | 319,481 |
| | Jackson | Jackson | | 205,759 | 112,377 |
| NC | Charlotte | Charlotte | X | 2,107,435 | 1,025,864 |
| | Triad Area | Greensboro/ Winston-Salem | X | 1,469,394 | 625,148 |
| | | Hickory | Hickory(5) | X | 345,317 |

Table of Contents**LEAP WIRELESS INTERNATIONAL, INC.****SUPPLEMENTARY DISCLOSURES
40 MARKET PLAN (cont.)**

| State | Market | BTA | Launched as of 9/30/01 | Licensed POPs (2001 est.) (1) | Covered POPs (2001 est.) (1) |
|--------------|--------------------------------|----------------------|-----------------------------------|--|---|
| NE | Lincoln | Lincoln | | 349,510 | 197,370 |
| | Omaha | Omaha | | 998,073 | 567,720 |
| NM | Albuquerque | Albuquerque(4) (6) | X | 842,451 | 646,759 |
| | Santa Fe | Santa Fe(7) | X | 222,016 | 91,743 |
| NV | Reno-Sparks and Carson City | Reno | | 601,268 | 351,108 |
| NY | Buffalo | Buffalo | | 1,212,839 | 962,820 |
| | Syracuse | Syracuse | | 780,393 | 513,720 |
| OH | Dayton | Dayton/Springfield | X | 1,221,056 | 858,783 |
| | Toledo | Toledo | | 789,824 | 510,564 |
| | | Sandusky | | 139,491 | 74,070 |
| OK | Tulsa | Tulsa | X | 958,093 | 627,841 |
| OR | Eugene | Eugene | | 325,831 | 246,192 |
| | Salem | Salem | | 534,999 | 249,958 |
| PA | Pittsburgh | Pittsburgh | X | 2,469,722 | 2,264,798 |
| TN | Chattanooga | Chattanooga(4) | X | 572,258 | 327,581 |
| | Knoxville | Knoxville | X | 1,130,516 | 484,568 |
| | Memphis | Memphis | X | 1,565,645 | 976,263 |
| | Middle Tennessee | Nashville(4) | X | 1,785,651 | 1,017,184 |
| | | Clarksville | X | 268,476 | 120,806 |
| UT | Wasatch Front | Salt Lake City/Ogden | X | 1,652,234 | 1,372,417 |
| | | Provo | X | 384,722 | 328,395 |
| WA | Spokane | Spokane | X | 751,212 | 469,888 |
| Total | 40 | 48 | 28 | 38,372,412 | 25,239,858 |

Table of Contents

- (1) Information relating to population and potential customers is based on 2001 population estimates provided by Easy Analytic Software, Inc. (EASI).
- (2) Sister
City calling
plan available
with
Northwest
Arkansas
market.(3) Sister
City calling
plan available
with Fort
Smith
market.(4) Slice
market.(5) Sister
City calling
plan available
with
Charlotte
market.(6) Sister
City calling
plan available
with Santa Fe
market.(7) Sister
City calling
plan available
with
Albuquerque
market.

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Table of Contents

SIGNATURE

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

Date: October 25, 2001

LEAP WIRELESS INTERNATIONAL, INC.

By: /s/ THOMAS D. WILLARDSON

Thomas D. Willardson
Senior Vice President, Finance
and Treasurer