

LEAP WIRELESS INTERNATIONAL INC

Form 8-K

April 24, 2002

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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 8-K

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

Date of Report (Date of earliest event reported): April 24, 2002

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)

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

92121
(Zip Code)

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This Current Report on Form 8-K is filed by Leap Wireless International, Inc., a Delaware corporation (Leap or the Company), in connection with the matters described herein.

Item 5. Other Events.

On April 24, 2002, Leap announced its financial and certain other operational results for the quarter ended March 31, 2002, as set forth below. Please note that throughout this report and until further announcement, Leap will report its licensed and covered potential customers, or POPs, based on 2002 population estimates as reported by Claritas Inc.

Leap reported net additions of approximately 268,000 Cricket customers, ending the quarter with 1.387 million customers, an increase of approximately 24 percent from the 1.119 million customers reported as of December 31, 2001. Leap offers Cricket service in 40 markets in 20 states stretching from New York to California, referred to in this report as Leap s 40 Market Plan.

Cricket operational highlights from the first fiscal quarter of 2002 included:

Overall non-selling cash costs per user (CCU) for Leap s consolidated business was approximately \$26, down \$9 from the previous quarter.

Billed average revenue per user per month (ARPU) rose to \$38.40, up from the approximately \$38 reported for the fourth quarter of 2001.

Leap launched Cricket service in Buffalo, New York, completing the launch of all markets in Leap s 40 Market Plan, and bringing the total potential customers covered by Cricket networks to 25.4 million.

Overall cost per gross customer addition (CPGA), including pre-launch marketing expenses incurred during the launch of the Buffalo market, was approximately \$246 for the quarter, consistent with CPGA reported for the previous quarter.

Aggregate average minutes of use across all of Leap s markets was 1,230 minutes per month.

Leap also reported the following first quarter results for its 14 mature markets, which have been in operation for one year or more and together represent approximately 38 percent of the Company s potential customers covered under its 40 Market Plan:

Aggregate earnings before interest, taxes, depreciation and amortization (EBITDA) margin for these markets was positive at the market level for the quarter.

Aggregate earnings before interest, taxes, depreciation, amortization and marketing (EBITDAM) margin, based on service revenue, was greater than 50 percent at the market level for the quarter.

Penetration of the 9.6 million potential customers covered by Cricket networks in these markets was 7.7 percent.

Combined churn was 3.4 percent.

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Key consolidated financial performance measures for the first fiscal quarter of 2002 were as follows:

Total revenues for Leap's operations were \$140.2 million, an increase of \$36.3 million over the \$103.9 million reported for the previous quarter. Service revenue rose to \$128.0 million, an increase of \$34.5 million over that reported for the fourth fiscal quarter of 2001.

Adjusted EBITDA loss for Leap was \$65.9 million, a decrease of \$53.1 million from the adjusted EBITDA loss of \$119.0 million reported for the previous quarter. The adjusted EBITDA loss of \$65.9 million for the first quarter includes one-time expenses of \$1.4 million associated with a reduction in force in the first quarter and was adjusted to exclude a gain on the sale of a wireless license of \$0.4 million. The adjusted EBITDA loss of \$119.0 million reported for the previous quarter excluded a \$136.3 million gain on the sale of wireless licenses.

Leap's adjusted net loss for the first quarter of 2002 was \$181.1 million, or \$4.89 per share, nearly \$1.00 per share less than the adjusted net loss of \$215.9 million, or \$5.88 per share, in the previous quarter. The adjusted net loss of \$181.1 million excludes the gain on the sale of a wireless license of \$0.4 million and excludes a one-time income tax expense of \$15.9 million resulting from Leap's adoption of Statement of Financial Accounting Standard (SFAS) No. 142, Goodwill and Other Intangible Assets. Leap adopted SFAS No. 142 on January 1, 2002. Accordingly, amortization of goodwill and wireless licenses ceased as of that date because they are indefinite lived intangible assets. The adjusted net loss of \$215.9 million reported for the previous quarter excludes the gain on the sale of a portion of Leap's wireless licenses in the Salt Lake City and Provo, Utah Basic Trading Areas (BTAs).

Leap's total cash and cash equivalents, unrestricted investments and deposit on Auction #35 as of March 31, 2002 were \$270.5 million. During the quarter, Leap set aside approximately \$21 million to fund debt associated with wireless license acquisitions.

Leap's property and equipment, net of depreciation, rose to \$1,206.6 million at March 31, 2002, an increase of \$94.3 million over that reported at December 31, 2001.

Other highlights:

Spectrum As part of Leap's strategy to maximize the value of its spectrum assets, Leap announced in April 2002 that it had signed a definitive agreement with Skagit Wireless, LLC to sell certain licenses for cash and that it had signed a definitive agreement with AT&T Wireless, LLC to exchange surplus licenses for a license in Rochester, New York. In addition, Leap recently closed a previously announced transaction involving the transfer of eight licenses to NTCH/Cleartalk in exchange for seven licenses in Ohio, New York, Pennsylvania and Texas. Leap currently owns wireless licenses covering approximately 53.9 million potential customers.

Assuming the completion of the transactions described above, Leap would own wireless licenses covering approximately 53.4 million potential customers. Leap was also the high bidder on 22 licenses covering 24.0 million potential customers in Federal Communications Commission (FCC) Auction #35 that ended in January 2001. Leap's right to take ownership of the Auction #35 licenses is subject to resolution of litigation between NextWave Telecom Inc. and the FCC, as well as FCC approval of the license transfers. The FCC recently announced its intention to return approximately \$60 million of the approximately \$70 million Leap currently has on deposit with the FCC as a result of the Company's participation in

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Auction #35. Leap expects to receive these funds from the FCC during the second quarter of 2002.

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, think, may, could, will, estimate, continue, anticipate, intend, seek, plan, expect, should, would and similar expressions. This information, which Leap has assessed but which by its nature is dynamic and subject to rapid and even abrupt changes. Leap's actual results could differ materially from those stated or implied by such forward-looking statements due to risks and uncertainties associated with its business. Factors that could cause actual results to differ include, but are not limited to:

changes in the economic conditions of the various markets Leap's subsidiaries serve which could adversely affect the market for wireless services;

Leap's ability to access capital markets;

a failure to meet the operational, financial or other covenants contained in Leap's credit facilities;

a deterioration in Leap's relationships with its equipment vendors and related lenders, including Leap's failure to obtain amendments to the credit facilities which it may request from time to time;

failure of network systems to perform according to expectations;

the effect of competition;

the acceptance of Leap's product offering by its target customers;

Leap's ability to retain customers;

Leap's ability to maintain its cost, market penetration and pricing structure in the face of competition and fraud;

technological challenges in developing wireless information services and customer acceptance of such services if developed;

Leap's ability to integrate the businesses and technologies it acquires;

rulings by courts or the FCC adversely affecting Leap's rights to own and/or operate certain wireless licenses or impacting its rights and obligations to acquire the licenses on which Leap was the winning bidder in the FCC's broadband PCS auction completed in January 2001 (Auction #35);

the impacts on the global and domestic economies and the financial markets of recent terrorist activities, the ensuing declaration of war on terrorism and the continued threat of terrorist activity and other acts of war or hostility; and

other factors detailed in the section entitled Risk Factors included in Leap's Annual Report on Form 10-K for the fiscal year ended December 31, 2001 and in its 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

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statements. Leap undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

In addition, EBITDA and EBITDAM are financial measures used in the financial community and ARPU, CCU, CPGA, penetration and churn are metrics used in the wireless telecommunications industry. None of these terms are measures of financial performance under generally accepted accounting principles in the United States.

Leap is a trademark of Leap Wireless International, Inc. Cricket is a registered trademark of Cricket Communications, Inc.

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

| | March 31, 2002 | December 31, 2001 |
|--|---------------------------|------------------------------|
| | (Unaudited) | |
| Assets | | |
| Cash and cash equivalents | \$ 120,700 | \$ 242,979 |
| Short-term investments | 77,524 | 81,105 |
| Restricted cash equivalents and short-term investments | 62,793 | 27,628 |
| Inventories | 35,808 | 45,338 |
| Other current assets | 16,162 | 22,044 |
| | <u>312,987</u> | <u>419,094</u> |
| Total current assets | 312,987 | 419,094 |
| Property and equipment, net | 1,206,621 | 1,112,284 |
| Wireless licenses, net | 718,206 | 718,222 |
| Goodwill and other intangible assets, net | 41,888 | 43,613 |
| Restricted investments | | 13,127 |
| Deposits for wireless licenses | 70,283 | 85,000 |
| Other assets | 67,165 | 59,555 |
| | <u>2,417,150</u> | <u>2,450,895</u> |
| Total assets | \$ 2,417,150 | \$ 2,450,895 |
| Liabilities and Stockholders Equity | | |
| Accounts payable and accrued liabilities | \$ 84,449 | \$ 147,695 |
| Current portion of long-term debt | 59,672 | 26,049 |
| Other current liabilities | 69,911 | 55,843 |
| | <u>214,032</u> | <u>229,587</u> |
| Total current liabilities | 214,032 | 229,587 |
| Long-term debt | 1,871,176 | 1,676,845 |
| Other long-term liabilities | 168,659 | 186,023 |
| | <u>2,253,867</u> | <u>2,092,455</u> |
| Total liabilities | 2,253,867 | 2,092,455 |
| Stockholders equity: | | |
| Preferred stock | | |
| Common stock | 4 | 4 |
| Additional paid-in capital | 1,148,857 | 1,148,337 |
| Unearned stock-based compensation | (3,416) | (5,138) |
| Accumulated deficit | (982,842) | (786,195) |
| Accumulated other comprehensive income | 680 | 1,432 |
| | <u>163,283</u> | <u>358,440</u> |
| Total stockholders equity | 163,283 | 358,440 |
| | <u>2,417,150</u> | <u>2,450,895</u> |
| Total liabilities and stockholders equity | \$ 2,417,150 | \$ 2,450,895 |

Table of Contents**LEAP WIRELESS INTERNATIONAL, INC.****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS****(UNAUDITED)****(In Thousands, Except Per Share Data)**

| | Three Months Ended | |
|---|---------------------------|--------------------|
| | March 31, | |
| | 2002 | 2001 |
| Revenues: | | |
| Service revenues | \$ 128,020 | \$ 25,655 |
| Equipment revenues | 12,161 | 11,098 |
| | <u>140,181</u> | <u>36,753</u> |
| Operating expenses: | | |
| Cost of service | (41,891) | (12,226) |
| Cost of equipment | (84,011) | (30,938) |
| Selling and marketing | (30,159) | (17,015) |
| General and administrative | (49,994) | (24,686) |
| Depreciation and amortization(1) | (61,888) | (14,787) |
| | <u>(267,943)</u> | <u>(99,652)</u> |
| Gain on sale of wireless license | 364 | |
| | <u>(127,398)</u> | <u>(62,899)</u> |
| Equity in net loss of investment in and loans receivable from unconsolidated wireless operating company | | (26,182) |
| Interest income | 1,760 | 10,899 |
| Interest expense | (52,909) | (37,611) |
| Other income, net | 92 | 2,341 |
| | <u>(178,455)</u> | <u>(113,452)</u> |
| Income taxes(1) | (18,192) | (933) |
| | <u>\$(196,647)</u> | <u>\$(114,385)</u> |
| Basic and diluted net loss per common share | <u>\$ (5.32)</u> | <u>\$ (3.88)</u> |
| Shares used in per share calculations: | | |
| Basic and diluted | 36,998 | 29,462 |

- (1) Leap adopted Statement of Financial Accounting Standard (SFAS) No. 142, Goodwill and Other Intangible Assets on January 1, 2002. Accordingly, amortization of goodwill and wireless licenses ceased as of that date because they are indefinite lived intangible assets. These assets will be subject to periodic impairment tests. Amortization of goodwill and wireless licenses totaled \$1.2 million for the three months ended March 31, 2001. Furthermore, Leap recorded a non-cash charge of \$15.9 million, or \$0.43 per share, to income tax expense to increase the valuation allowance related to Leap's net operating losses in connection with the adoption of SFAS No. 142.

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

As of and for the Three Months Ended

| | March 31, 2002 | December 31, 2001 | September 30, 2001 | June 30, 2001 | March 31, 2001 |
|--|---------------------------|------------------------------|-----------------------------------|--------------------------|---------------------------|
| Gross additions | 391,417 | 473,372 | 301,189 | 179,883 | 163,929 |
| Deactivations | 122,698 | 78,724 | 48,792 | 47,026 | 17,364 |
| Net additions | 268,719 | 394,648 | 252,397 | 132,857 | 146,565 |
| End of period customers | 1,387,825 | 1,119,106 | 724,458 | 472,061 | 339,204 |
| Weighted average customers | 1,260,679 | 898,876 | 560,544 | 394,124 | 262,048 |
| Cost per gross addition | \$ 246 | \$ 246 | \$ 243 | \$ 245 | \$ 214 |
| Equipment subsidy associated with customer gross additions (in 000s) | \$ 66,198 | \$ 72,640 | \$ 42,106 | \$ 23,063 | \$ 18,636 |
| Selling & marketing associated with customer gross additions (in 000s) | \$ 30,057 | \$ 43,850 | \$ 31,209 | \$ 20,985 | \$ 16,504 |
| Consolidated cash costs per user | \$ 25.80 | \$ 35.40 | \$ 40.60 | \$ 43.40 | \$ 48.50 |
| Covered POPs (2002 estimate in millions) | 25.4 | 24.3 | 19.6 | 12.9 | 9.6 |
| Penetration of covered POPs | 5.5% | 4.6% | 3.7% | 3.7% | 3.5% |
| Cumulative markets launched | 40 | 39 | 25 | 20 | 14 |
| Cumulative BTAs launched | 48 | 47 | 28 | 23 | 17 |
| Cumulative mature markets(1) | 14 | 10 | 2 | 2 | 2 |
| Churn in mature markets (1) | 3.4% | 3.6% | 3.5% | 3.8% | 3.4% |
| Cell sites in service | 2,323 | 2,186 | 1,562 | 1,132 | 753 |

(1) Defined as those markets that have been in operation for one year or more.

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40 MARKET PLAN**

| <u>State</u> | <u>Market</u> | <u>BTA</u> | <u>Licensed POPs (2002 est.)(1)</u> | <u>Covered POPs (2002 est.)(1)</u> |
|--------------|-------------------------|------------------------------|---|--|
| AR | Central Arkansas | Little Rock | 979,869 | 421,640 |
| | | Pine Bluff | 155,312 | 70,024 |
| | | Hot Springs | 142,209 | 37,430 |
| | Fort Smith(2) | Fort Smith | 333,623 | 132,346 |
| | | Jonesboro | 184,285 | 98,293 |
| | | Northwest Arkansas(3) | Fayetteville | 340,740 |
| AZ | Phoenix | Phoenix | 3,622,225 | 2,980,826 |
| | Tucson | Tucson | 870,435 | 739,596 |
| CA | Modesto-Merced | Modesto | 513,881 | 447,946 |
| | | Merced | 232,925 | 152,323 |
| | Visalia | Visalia | 509,867 | 376,942 |
| CO | Denver(4) | Denver/Boulder | 2,808,808 | 2,356,632 |
| | North Colorado(5) | Fort Collins | 261,360 | 212,620 |
| | | Greeley | 188,382 | 160,697 |
| | | Pueblo | Pueblo | 319,522 |
| GA | Columbus | Columbus | 367,939 | 186,227 |
| | Macon | Macon | 674,123 | 230,210 |
| ID | Boise | Boise | 609,200 | 384,112 |
| KS | Wichita | Wichita | 664,523 | 497,825 |
| MI | Kalamazoo and Battle | Kalamazoo | 382,152 | 158,326 |
| | | Battle Creek | Battle Creek | 242,434 |
| | Flint | Flint | 508,715 | 326,302 |
| | Jackson | Jackson | 207,485 | 97,516 |
| NC | Charlotte(6) | Charlotte | 2,139,136 | 1,050,020 |
| | Triad Area | Greensboro/ Winston-Salem | 1,485,806 | 640,984 |
| | | Hickory(7) | Hickory | 349,288 |

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

| State | Market | BTA | Licensed POPs (2002 est.) (1) | Covered POPs (2002 est.) (1) | |
|--------------|--------------------------------|-------------------------|--|---|-----------|
| NE | Lincoln(8) | Lincoln | 352,539 | 234,992 | |
| | Omaha(9) | Omaha | 1,004,837 | 663,159 | |
| NM | Albuquerque (10) | Albuquerque | 853,280 | 650,617 | |
| | Santa Fe(11) | Santa Fe | 225,450 | 80,522 | |
| NV | Reno-Sparks and Carson City | Reno | 612,437 | 350,218 | |
| NY | Buffalo | Buffalo | 1,210,156 | 988,667 | |
| | Syracuse | Syracuse | 779,144 | 467,249 | |
| OH | Dayton | Dayton/Springfield | 1,221,241 | 868,470 | |
| | Toledo | Toledo | 790,134 | 482,011 | |
| | | Sandusky | | 139,506 | 47,096 |
| OK | Tulsa | Tulsa | 966,936 | 646,871 | |
| OR | Eugene(12) | Eugene | 328,965 | 259,553 | |
| | Salem(13) | Salem | 541,410 | 280,524 | |
| PA | Pittsburgh | Pittsburgh | 2,464,811 | 1,977,465 | |
| TN | Chattanooga | Chattanooga | 576,867 | 314,543 | |
| | Knoxville | Knoxville | 1,144,419 | 496,194 | |
| | Memphis | Memphis | 1,579,375 | 1,001,033 | |
| | Middle Tennessee | Nashville | | 1,811,753 | 1,078,088 |
| | | Clarksville | | 272,253 | 129,209 |
| UT | Wasatch Front | Salt Lake City/Ogden | 1,677,325 | 1,324,361 | |
| | | Provo | 392,981 | 312,379 | |
| WA | Spokane | Spokane | 760,885 | 475,230 | |
| Total | 40 | 48 | 38,800,948 | 25,452,542 | |

(1) Information relating to population and potential customers is based on 2002 population estimates provided by Claritas Inc.

(2) Sister City calling plan available with Northwest Arkansas market.(3) Sister City calling plan available with Fort Smith market.

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- (4) Sister City calling plan available with Northern Colorado market.
- (5) Sister City calling plan available with Denver market.
- (6) Sister City calling plan available with Hickory market.
- (7) Sister City calling plan available with Charlotte market.
- (8) Sister City calling plan available with Omaha market.
- (9) Sister City calling plan available with Lincoln market.
- (10) Sister City calling plan available with Santa Fe market.
- (11) Sister City calling plan available with Albuquerque market.
- (12) Sister City calling plan available with Salem market.
- (13) Sister City calling plan available with Eugene market.

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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: April 24, 2002

LEAP WIRELESS INTERNATIONAL, INC.

By: /s/ HARVEY P. WHITE

Harvey P. White
Chief Executive Officer, Interim
Chief Financial Officer and Director