

LEAP WIRELESS INTERNATIONAL INC

Form 8-K

February 11, 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): February 11, 2002

Leap Wireless International, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or Other Jurisdiction
of Incorporation) (Commission File
Number) (I.R.S. Employer Identification
No.)

0-29752

33-0811062

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

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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 February 11, 2002, Leap announced its financial and certain other operational results for the quarter and fiscal year ended December 31, 2001, as set forth below.

The Company reported that it ended fiscal year 2001 with 1.119 million Cricket customers, up from the more than 724,000 customers reported as of September 30, 2001. Leap reported net additions of more than 394,000 customers during the quarter.

Cricket operational highlights from the fourth quarter of 2001 included:

Leap launched an additional 14 markets during the fourth quarter, bringing to 39 the total markets launched at the end of the year. Subsequent to the end of the quarter, Leap launched Cricket service in Buffalo, New York, completing the launch of all markets in its 40 Market Plan. Total potential customers covered by Cricket networks now stand at 25.2 million (2001 POPs).

Billed average revenue per user per month (ARPU) across all of Leap's operational markets rose to approximately \$38, compared to the approximately \$37 reported for the third quarter of 2001.

Overall cost per gross customer addition (CPGA), including pre-launch marketing expenses, was approximately \$246 for the quarter. CPGA for the entire fiscal year was \$241.

Overall cash cost per user (CCU) declined by approximately 10 percent.

Leap also reported the following results for its 10 one-year or older markets for the fourth quarter of 2001:

Combined churn was 3.6 percent.

Penetration of the 8.2 million potential customers (2001 POPs) covered by Cricket networks in these markets was 7.1 percent.

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

Aggregate earnings before interest, taxes, depreciation and amortization (EBITDA) margin, based on service revenue, was negative for the fourth quarter, at the market level, reflecting customer acquisition costs associated with increased sales during the holiday season.

Aggregate average minutes of use for these markets was approximately 1,150 minutes per month, consistent with historical customer usage patterns.

Key consolidated financial performance measures for the fourth fiscal quarter of 2001 were as follows:

Total operating revenues for Leap's U.S. operations were \$103.9 million, an increase of more than \$37 million over the \$66.7 million reported for the previous quarter. Service revenue rose to \$93.5 million, an increase of \$36.3 million over that reported for the third fiscal quarter of 2001.

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Consolidated EBITDA loss, excluding a \$136.3 million gain on the sale of wireless licenses, was \$119.0 million, an increase from the loss of \$85.3 million reported for the previous quarter. Cricket's continued rapid growth during the fourth quarter was a primary factor in the increase in the consolidated EBITDA loss during the quarter.

Leap's consolidated net loss for the fourth quarter was \$79.6 million, or \$2.17 per share, compared to a net loss of \$160.7 million or \$4.43 per share, in the prior quarter. Leap's consolidated net loss, adjusted to eliminate the gain on the sale of a portion of its wireless licenses in the Salt Lake City and Provo, Utah Basic Trading Areas, was \$215.9 million or \$5.88 per share.

Leap's total cash and cash equivalents, unrestricted investments, and deposits on Auction #35 as of December 31, 2001 were \$411.1 million.

Leap's property and equipment, net of depreciation, rose to \$1,112.3 million at December 31, 2001, an increase of \$682.1 million over that reported at December 31, 2000.

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 Leap's 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; Leap's failure to obtain the amendments to the credit facilities which Leap has requested; Leap's ability to rollout networks in accordance with its 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 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; 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 high bidder in 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 Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2001 and in Leap's 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. 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, CPGA, CCU 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.

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

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(In Thousands)

| | <u>December 31,</u> | |
|---|---------------------|-------------|
| | <u>2001</u> | <u>2000</u> |
| | (Unaudited) | |
| Assets | | |
| Cash and cash equivalents | | |
| | \$242,979 | \$338,878 |
| Short-term investments | | |
| | 81,105 | 199,106 |
| Restricted short-term investments | | |
| | 27,628 | 28,129 |
| Inventories | | |
| | 45,338 | 9,032 |
| Notes receivable, net | | |
| | 33,284 | 138,907 |
| Other current assets | | |
| | 22,044 | 12,746 |
| <hr/> | | |
| <hr/> | | |
| Total current assets | | |
| | 452,378 | 726,798 |
| Property and equipment, net | | |
| | 1,112,284 | 430,193 |
| Investment in unconsolidated wireless operating company | | |
| | 34,691 | |
| Wireless licenses, net | | |
| | 718,222 | 265,635 |
| Goodwill and other intangible assets, net | | |
| | 43,613 | 30,297 |
| Restricted investments | | |
| | 13,127 | 37,342 |
| Deposits for wireless licenses | | |
| | 85,000 | 91,772 |
| Other assets | | |
| | 26,271 | 30,679 |
| <hr/> | | |
| <hr/> | | |
| Total assets | | |
| | \$2,450,895 | \$1,647,407 |

**Liabilities and Stockholders
Equity**

Accounts payable and accrued
liabilities
\$147,695 \$58,735
Current portion of long-term debt
26,049
Other current liabilities
55,843 65,690

Total current liabilities
229,587 124,425
Long-term debt
1,676,845 897,878
Other long-term liabilities
186,023 41,846

Total liabilities
2,092,455 1,064,149

Stockholders' equity:

Preferred stock

Common stock

4 3

Additional paid-in capital

1,148,337 893,401

Unearned stock-based
compensation

(5,138) (10,019)

Accumulated deficit

(786,195) (302,898)

Accumulated other comprehensive
income

1,432 2,771

Total stockholders' equity
358,440 583,258

Total liabilities and stockholders
equity
\$2,450,895 \$1,647,407

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LEAP WIRELESS INTERNATIONAL, INC.

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

| | <u>Three Months Ended</u> | | <u>Year Ended</u> | |
|-------------------------------|---------------------------|-------------|-------------------|-------------|
| | <u>December 31,</u> | | | |
| | <u>2001</u> | <u>2000</u> | <u>2001</u> | <u>2000</u> |
| Revenues: | | | | |
| Service revenues | \$93,468 | \$9,057 | \$215,917 | \$40,599 |
| Equipment revenues | 10,404 | 5,205 | 39,247 | 9,718 |
| <hr/> | | | | |
| <hr/> | | | | |
| <hr/> | | | | |
| <hr/> | | | | |
| Total revenues | 103,872 | 14,262 | 255,164 | 50,317 |
| <hr/> | | | | |
| <hr/> | | | | |
| <hr/> | | | | |
| <hr/> | | | | |
| Operating expenses: | | | | |
| Cost of service | (37,507) | (6,545) | (94,510) | (20,821) |
| Cost of equipment | (85,723) | (24,038) | (202,355) | (54,883) |
| Selling and marketing | (44,240) | (15,979) | (115,222) | (31,709) |
| General and administrative | (55,360) | (28,195) | (152,051) | (85,640) |
| Depreciation and amortization | (50,385) | (7,312) | (119,177) | (24,563) |

Total operating expenses
 (273,215) (82,069) (683,315) (217,616)
 Gain on sale of wireless licenses
 136,258 143,633

Operating loss
 (33,085) (67,807) (284,518) (167,299)
 Equity in net loss of investments in and loans receivable
 from unconsolidated wireless operating companies
 3,562 (6,623) (54,000) (78,624)
 Interest income
 2,801 14,539 26,424 48,477
 Interest expense
 (54,358) (31,450) (178,067) (112,358)
 Foreign currency transaction gains (losses)
 (118) 867 (1,257) 13,966
 Gain on sale of subsidiary
 313,432
 Gain on issuance of stock by unconsolidated wireless
 operating company
 32,602
 Other income (expense), net
 (163) (65) 8,443 1,913

Income (loss) before income taxes and extraordinary items
 (81,361) (90,539) (482,975) 52,109
 Income taxes
 1,721 (12,992) (322) (47,540)

Income (loss) before extraordinary items
(79,640) (103,531) (483,297) 4,569
Extraordinary loss on early extinguishment of debt
(4,737)

Net income (loss)
\$(79,640) \$(103,531) \$(483,297) \$(168)

Basic net income (loss) per common share:

Income (loss) before extraordinary items
\$(2.17) \$(3.82) \$(14.27) \$0.18
Extraordinary loss
(0.19)

Net income (loss)
\$(2.17) \$(3.82) \$(14.27) \$(0.01)

Diluted net income (loss) per common share:

Income (loss) before extraordinary items
\$(2.17) \$(3.82) \$(14.27) \$0.14
Extraordinary loss
(0.15)

Net income (loss)
\$(2.17) \$(3.82) \$(14.27) \$(0.01)

Shares used in per share calculations:

Basic
36,683 27,121 33,861 25,398

Diluted
36,683 27,121 33,861 32,543

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OPERATIONAL METRICS
(UNAUDITED)**

| | As of and for the Quarter Ended | | | |
|--|---------------------------------|--------------------------|------------------|-------------------|
| | December 31, 2001 | September 30, 2001 | June 30, 2001 | March 31, 2001 |
| Gross additions | 473,372 | 301,189 | 179,883 | 163,929 |
| Deactivations | | | | |
| 78,724 48,792 47,026 17,364 | | | | |
| Net additions | | | | |
| 394,648 252,397 132,857 146,565 | | | | |
| End of period customers | | | | |
| 1,119,106 724,458 472,061 339,204 | | | | |
| Weighted average customers | | | | |
| 898,876 560,544 394,124 262,048 | | | | |
| CPGA | | | | |
| \$246 \$243 \$245 \$214 | | | | |
| Equipment subsidy associated with customer gross additions (in 000s) | | | | |
| \$72,640 \$42,106 \$23,063 \$18,636 | | | | |
| Selling & marketing associated with customer gross additions (in 000s) | | | | |
| \$43,850 \$31,209 \$20,985 \$16,504 | | | | |
| Covered POPs (2001 estimate in millions) | | | | |
| 24.3 19.5 12.9 9.5 | | | | |
| Penetration of covered POPs | | | | |
| 4.2% 3.7% 3.7% 3.6% | | | | |
| Cumulative markets launched | | | | |
| 39 25 20 14 | | | | |
| Cumulative BTAs launched | | | | |
| 47 28 23 17 | | | | |
| Cell sites in service | | | | |
| 2,186 1,562 1,132 753 | | | | |

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40 MARKET PLAN**

| State | Market | BTA | Launched as of 12/31/01 | Licensed POPs (2001 est.) (1) | Covered POPs (2001 est.) (1) |
|-------|-----------------------|----------------|-------------------------------|----------------------------------|---------------------------------|
| AR | Central Arkansas | Little Rock | X | 971,470 | 413,673 |
| | Pine Bluff | X | 154,091 | 64,331 | |
| | Hot Springs | X | 140,502 | 49,263 | |
| | Fort Smith(2) | Fort Smith | X | 330,029 | 112,735 |
| | Jonesboro | Jonesboro | X | 182,637 | 93,122 |
| | Northwest Arkansas(3) | Fayetteville | X | 332,638 | 182,644 |
| AZ | Phoenix(4) | Phoenix | X | 3,539,920 | 2,951,523 |
| | Tucson | Tucson | X | 857,246 | 756,722 |
| CA | Modesto-Merced | Modesto | X | 507,765 | 348,579 |
| | Merced | X | 230,409 | 153,741 | |
| | Visalia | Visalia | X | 503,948 | 352,844 |
| CO | Denver(5) | Denver/Boulder | X | 2,759,099 | 2,279,310 |
| | North Colorado(6) | Ft. Collins | X | 256,324 | 213,919 |
| | Greeley | X | 184,429 | 145,495 | |
| | Pueblo | Pueblo | X | 316,376 | 127,964 |
| GA | 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 | Kalamazoo | X | 379,353 | 181,103 |
| | Creek | Battle Creek | | 241,424 | 78,530 |
| | Flint | Flint | X | 508,496 | 319,481 |
| | Jackson | Jackson | X | 205,759 | 112,377 |
| NC | Charlotte(7) | Charlotte | X | 2,107,435 | 1,025,864 |

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Triad Area Greensboro/ X 1,469,394 625,148

Winston-Salem

Hickory(8) Hickory X 345,317 97,216

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40 MARKET PLAN (cont.)**

| State | Market | BTA | Launched as of 12/31/01 | Licensed POPs (2001 est.) (1) | Covered POPs (2001 est.) (1) |
|----------------------|----------------------|-----------|-------------------------------|--|---------------------------------------|
| NE | | | | | |
| Lincoln(9) | Lincoln X | 349,510 | 197,370 | | |
| Omaha(10) | Omaha X | 998,073 | 567,720 | | |
| NM | | | | | |
| Albuquerque(4) (11) | Albuquerque X | 842,451 | 646,759 | | |
| Santa Fe(12) | Santa Fe X | 222,016 | 91,743 | | |
| NV | | | | | |
| Reno-Sparks and Reno | X | 601,268 | 351,108 | | |
| Carson City | | | | | |
| NY | | | | | |
| Buffalo | Buffalo | 1,212,839 | 962,820 | | |
| Syracuse | Syracuse X | 780,393 | 513,720 | | |
| OH | | | | | |
| Dayton | Dayton/Springfield X | 1,221,056 | 858,783 | | |
| Toledo | Toledo X | 789,824 | 510,564 | | |
| Sandusky | X | 139,491 | 74,070 | | |
| OK | | | | | |
| Tulsa | Tulsa X | 958,093 | 627,841 | | |
| OR | | | | | |
| Eugene(13) | Eugene X | 325,831 | 246,192 | | |
| Salem(14) | Salem X | 534,999 | 249,958 | | |
| PA | | | | | |
| Pittsburgh | Pittsburgh X | 2,469,722 | 2,264,798 | | |
| TN | | | | | |
| Chattanooga(4) | Chattanooga X | 572,258 | 327,581 | | |
| Knoxville | Knoxville X | 1,130,516 | 484,568 | | |
| Memphis | Memphis X | 1,565,645 | 976,263 | | |
| Middle Tennessee(4) | Nashville 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 39 38,372,412 25,239,858

(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
Northern
Colorado
market.

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(6) Sister City calling plan available with Denver market.

(7) Sister City calling plan available with Hickory market.

(8) Sister City calling plan available with

Charlotte market.

(9) Sister City calling plan available with Omaha market.

(10) Sister City calling plan available with Lincoln market.

(11) Sister City calling plan available with Santa Fe market.

(12) Sister City calling plan available with

Albuquerque market.

(13) Sister City calling plan available with Salem market.

(14) 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: February 11, 2002

LEAP WIRELESS INTERNATIONAL, INC.

By: /s/ THOMAS D. WILLARDSON

Thomas D. Willardson
Senior Vice President, Finance
and Treasurer