

LEAP WIRELESS INTERNATIONAL INC

Form 8-K

July 26, 2001

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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): July 25, 2001

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

Delaware
(State or Other Jurisdiction
of Incorporation)
10307 Pacific Center Court, San Diego,
California
(Address of Principal Executive
Offices) 92121
(Zip Code)

0-29752
(Commission File Number)

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

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

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Item 5. Other Events.

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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 July 25, 2001, Leap announced its financial and certain other operational results for the quarter ended June 30, 2001 as set forth below.

The Company reported that as of June 30, 2001, customers of the Company's Cricket service grew to over 472,000, compared to the just over 339,000 customers reported as of March 31, 2001.

Cricket operational highlights from the second quarter of 2001 included:

Leap launched an additional six market areas - Spokane, Washington; Fort Smith, Arkansas; Columbus and Macon, Georgia; Hickory, North Carolina; and Pittsburgh, Pennsylvania - bringing the total potential customers covered by Cricket service in markets across the

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United States to approximately 12.3 million (1998 POPs) at the end of the quarter. Subsequent to the end of the quarter, Leap also launched Cricket service in Fayetteville, Arkansas.

Average revenue per user per month (ARPU) across all of Leap's operational markets rose to approximately \$36, up from the approximately \$35 reported for the first quarter of 2001.

Overall cost per gross customer addition (CPGA) was approximately \$245.

Key financial performance measures for the second quarter ended June 30, 2001 were as follows:

Total operating revenues for Leap's U.S. operations for the second quarter were \$47.8 million, an increase of \$11 million over the \$36.8 million reported for the first quarter of 2001. Service revenue rose to \$39.5 million, an increase of 54 percent over that reported for the first quarter of 2001.

Consolidated earnings before interest, taxes, depreciation and amortization (EBITDA) was negative \$56.6 million, compared to the negative \$48.1 million reported for the first quarter of 2001.

Leap's consolidated net loss for the quarter was \$128.5 million or \$3.91 per share, compared to a net loss of \$114.4 million or \$3.88 per share in the prior quarter. Of the \$3.91 net loss per share reported in the second quarter, \$0.52 was the result of Leap's share of losses for Pegaso Telecomunicaciones S.A., de C.V. (PEGASO), the Mexican wireless company that Leap co-founded, recognized under the equity method of accounting.

Leap's total cash and cash equivalents, investments, and deposits on pending wireless license acquisitions as of June 30, 2001 were \$593.4 million.

The book value of wireless licenses at the end of the second quarter rose to \$681.5 million, an increase of \$408.1 million over what was reported at the end of the first quarter of 2001 and reflecting the completion of several spectrum acquisitions.

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Leap's property and equipment, net of depreciation, rose to \$686.5 million in the second quarter, an increase of \$178.5 million over that reported at March 31, 2001.

Other Highlights:

New Services In May 2001, Leap introduced its Telephone Entertainment Network, a company initiative focused on turning wireless communications into an entertainment and information medium. During the quarter, Leap launched Slice, the first channel to debut on the Telephone Entertainment Network, in Chattanooga and Nashville, Tenn., and further expanded this service in July 2001 to include Albuquerque, N.M. Marketed as Your Personal Telephone Entertainment Channel, Slice is designed to deliver short, crisp voice clips directly to the customer's wireless phone. With Slice service, customers hear entertaining, short clips of local news and events, sports, weather, traffic and more before their calls connect. Leap intersperses short advertisements and promotions that can save customers money with these fun, fresh slices of information. With a simple press of a button, customers can get more information by voice or text on selected voice clips.

Spectrum During the second quarter of 2001, Leap completed the acquisition of 40 new wireless licenses totaling approximately 14.2 million potential customers (1998 POPs), bringing the total potential customers covered by the licenses that Leap owns to approximately 49.8 million. In total, Leap now owns or has rights to acquire 72.7 million potential customers (1998 POPs) in 36 states. This number includes licenses covering 22.4 million potential customers (1998 POPs) on which Leap was the high bidder in FCC Auction #35 that ended in January 2001. It is unclear when or whether the FCC will transfer these licenses to Leap because of a June 22, 2001 U.S. Court of Appeals opinion stating that the FCC violated the United States Bankruptcy Code in canceling NextWave's licenses (which were then auctioned in Auction #35). The 22 licenses that Leap won in Auction #35 were all NextWave licenses that the FCC reclaimed.

International Operations PEGASO grew its customer base to approximately 729,000 at the end of the second quarter. As of March 31, 2001, PEGASO had launched service in 13 markets with networks covering nearly 30 million potential customers across Mexico. Leap has chosen to invest an additional \$29 million into the Mexican wireless carrier to support the future growth and working capital needs of Pegaso. Other shareholders of Pegaso have also agreed to contribute additional amounts such that Leap's percentage ownership in Pegaso remains unchanged.

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LEAP WIRELESS INTERNATIONAL, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS
(In Thousands)

	June 30,	December
	2001	31,
	2001	2000
	<hr/>	<hr/>
	(Unaudited)	
Assets		
Cash and cash equivalents		
\$381,522	\$338,878	
Restricted cash equivalents		
13,575		
Short-term investments		
118,791	199,106	
Inventories		
28,487	9,032	
Notes receivable, net		
33,284	138,907	
Other current assets		
9,577	12,746	
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Total current assets		
571,661	712,244	
Property and equipment, net		
686,451	430,193	
Investment in unconsolidated wireless operating company		
788	34,691	
Wireless licenses, net		
681,487	265,635	
Goodwill and other intangible assets, net		
47,431	30,297	
Restricted investments		
53,323	51,896	
Deposits for wireless licenses		
87,699	91,772	
Other assets		
156,144	30,679	
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Total assets		
\$2,284,984	\$1,647,407	

**Liabilities and Stockholders
Equity**

Accounts payable and accrued
liabilities
\$57,219 \$58,735
Other current liabilities
132,018 65,690

Total current liabilities
189,237 124,425
Long-term debt
1,408,371 897,878
Other long-term liabilities
107,012 41,846

Total liabilities
1,704,620 1,064,149

Stockholders' equity:

Preferred stock

Common stock
3 3

Additional paid-in capital
1,131,657 893,401

Unearned stock-based
compensation
(7,776) (10,019)

Accumulated deficit
(545,813) (302,898)

Accumulated other comprehensive
income
2,293 2,771

Total stockholders' equity
580,364 583,258

Total liabilities and stockholders
equity
\$2,284,984 \$1,647,407

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LEAP WIRELESS INTERNATIONAL, INC.

**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)**

(In Thousands, Except Per Share Data)

	Three Months Ended		Six Months Ended	
	June 30,			
	2001	2000	2001	2000
Revenues:				
Service revenues	\$39,554	\$16,828	\$65,209	\$26,246
Equipment revenues	8,292	1,696	19,390	2,269
Total revenues	47,846	18,524	84,599	28,515

Operating expenses:

Cost of service

(17,480) (5,981) (29,706) (8,764)

Cost of equipment

(32,497) (12,720) (63,435) (25,968)

Selling and marketing

(21,786) (4,941) (38,801) (11,617)

General and administrative

(32,715) (26,957) (57,401) (42,384)

Depreciation and amortization

(20,511) (8,436) (35,298) (13,678)

Total operating expenses

(124,989) (59,035) (224,641) (102,411)

Operating loss

(77,143) (40,511) (140,042) (73,896)

Equity in net loss of investments in and loan receivable
from unconsolidated wireless operating companies

(17,116) (17,169) (43,298) (46,752)

Interest income

7,874 12,313 18,773 17,004

Interest expense

(41,840) (36,311) (79,451) (52,471)

Foreign currency transaction gains (losses)

(40) 10,322 (1,275) 11,721

Gain on sale of subsidiary

313,432 313,432

Gain on issuance of stock by unconsolidated wireless
operating company

25,734 25,734

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Other income, net
1,313 3,576 1,948

Income (loss) before income taxes and extraordinary items
(128,265) 269,123 (241,717) 196,720

Income taxes
(265) (34,548) (1,198) (34,548)

Income (loss) before extraordinary items
(128,530) 234,575 (242,915) 162,172

Extraordinary losses on early extinguishment of debt
(315) (4,737)

Net income (loss)
\$(128,530) \$234,260 \$(242,915) \$157,435

Basic net income (loss) per common share:

Income (loss) before extraordinary items
\$(3.91) \$9.18 \$(7.79) \$6.77
Extraordinary loss

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(0.01) (0.20)

Net income (loss)
\$(3.91) \$9.17 \$(7.79) \$6.57

Diluted net income (loss) per common share:

Income (loss) before extraordinary items
\$(3.91) \$7.21 \$(7.79) \$5.19
Extraordinary loss
- (0.01) (0.15)

Net income (loss)
\$(3.91) \$7.20 \$(7.79) \$5.04

Shares used in per share calculations:

Basic
32,882 25,536 31,181 23,967

Diluted
32,882 32,519 31,181 31,227

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**LEAP WIRELESS INTERNATIONAL, INC.
SELECTED SEGMENT DATA
(UNAUDITED)
(In Thousands)**

	As of and for the Three Months Ended		As of and for the Six Months Ended	
	June 30,			
	2001	2000	2001	2000
	(Unaudited)		(Unaudited)	
United States:				
Revenues	\$47,846	\$5,642	\$84,599	\$9,841
EBITDA	(45,779)	(11,038)	(86,796)	(19,875)
Operating loss	(66,004)	(14,131)	(121,362)	(28,637)
Capital expenditures	(191,884)	(48,203)	(277,921)	(84,089)
Purchase of wireless licenses	(403,631)	(410,345)	(73,154)	
Total assets	1,783,273	673,713	1,783,273	673,713
Mexico⁽¹⁾:				

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Revenues	37,324	19,035	58,198	23,687
EBITDA	(39,234)	(53,188)	(140,315)	(101,670)
Operating loss	(56,279)	(62,776)	(170,149)	(116,285)
Capital expenditures	(64,701)	(21,361)	(163,834)	(87,428)
Total assets	933,631	622,083	933,631	622,083

- (1) The results of the Mexico segment are for the three and six months ended March 31, 2001 and 2000, a three-month reporting lag. The results of the Mexico segment for the three months ended March 31, 2001 are pro forma, and exclude cumulative adjustments reducing revenues by \$17.4 million and reducing cost of revenues by \$4.2 million related to Staff Accounting Bulletin No. 101, Revenue Recognition in Financial Statements .

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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: July 25, 2001

LEAP WIRELESS INTERNATIONAL, INC.

By: /s/ THOMAS D. WILLARDSON

Thomas D. Willardson
Senior Vice President, Finance and Treasurer