

LEAP WIRELESS INTERNATIONAL INC

Form 10-Q

November 14, 2005

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.**

For the quarterly period ended September 30, 2005

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission File Number 0-29752

Leap Wireless International, Inc.

(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

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

10307 Pacific Center Court, San Diego, CA  
(Address of principal executive offices)

92121  
(Zip Code)

(858) 882-6000

(Registrant's telephone number, including area code)

Not applicable

(Former name, former address and former fiscal year, if changed since last reported)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past ninety days. Yes  No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes  No

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes  No

The number of shares of registrant's common stock outstanding on November 10, 2005 was 61,160,538.

**LEAP WIRELESS INTERNATIONAL, INC.**  
**QUARTERLY REPORT ON FORM 10-Q**  
**For the Quarter Ended September 30, 2005**  
**TABLE OF CONTENTS**

	<b>Page</b>
<b><u>PART I FINANCIAL INFORMATION</u></b>	
<u>Item 1.</u>	<u>Financial Statements</u> 1
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> 18
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u> 39
<u>Item 4.</u>	<u>Controls and Procedures</u> 40
<b><u>PART II OTHER INFORMATION</u></b>	
<u>Item 1.</u>	<u>Legal Proceedings</u> 42
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u> 42
<u>Item 3.</u>	<u>Defaults Upon Senior Securities</u> 42
<u>Item 4.</u>	<u>Submission of Matters to a Vote of Security Holders</u> 42
<u>Item 5.</u>	<u>Other Information</u> 42
<u>Item 6.</u>	<u>Exhibits</u> 43

---

**PART I**  
**FINANCIAL INFORMATION**

**Item 1. Financial Statements.**

**LEAP WIRELESS INTERNATIONAL, INC.**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
**(In thousands)**

	<b>Successor Company</b>	
	<b>September 30, 2005</b>	<b>December 31, 2004</b>
	<b>(Unaudited)</b>	
<b>Assets</b>		
Cash and cash equivalents	\$ 168,288	\$ 141,141
Short-term investments	223,497	113,083
Restricted cash, cash equivalents and short-term investments	21,588	31,427
Inventories	22,979	25,816
Other current assets	26,282	35,144
Total current assets	462,634	346,611
Property and equipment, net	532,744	575,486
Wireless licenses	829,512	652,653
Assets held for sale (Note 7)	9,756	
Goodwill	329,619	329,619
Other intangible assets, net	123,617	151,461
Deposits for wireless licenses		24,750
Other assets	18,244	9,902
Total assets	\$ 2,306,126	\$ 2,090,482
<b>Liabilities and Stockholders Equity</b>		
Accounts payable and accrued liabilities	\$ 76,185	\$ 91,093
Current maturities of long-term debt (Note 5)	6,111	40,373
Other current liabilities	59,513	71,965
Total current liabilities	141,809	203,431
Long-term debt (Note 5)	589,861	371,355
Other long-term liabilities	83,286	45,846
Total liabilities	814,956	620,632
Minority interest	1,730	
Commitments and contingencies (Notes 2, 5 and 8)		
Stockholders equity:		
Preferred stock authorized 10,000,000 shares; \$.0001 par value, no shares issued and outstanding		

Edgar Filing: LEAP WIRELESS INTERNATIONAL INC - Form 10-Q

Common stock authorized 160,000,000 shares; \$.0001 par value, 61,160,538 and 60,000,000 shares issued and outstanding at September 30, 2005 and December 31, 2004, respectively	6	6
Additional paid-in capital	1,511,648	1,478,392
Unearned stock-based compensation	(23,405)	
Accumulated deficit	(1,016)	(8,629)
Accumulated other comprehensive income	2,207	81
Total stockholders equity	1,489,440	1,469,850
Total liabilities and stockholders equity	\$ 2,306,126	\$ 2,090,482

See accompanying notes to condensed consolidated financial statements.

**LEAP WIRELESS INTERNATIONAL, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND**  
**COMPREHENSIVE INCOME (LOSS)**  
**(UNAUDITED)**  
**(In thousands, except per share data)**

	Successor Company		Predecessor Company
	Three Months Ended September 30, 2005	Two Months Ended September 30, 2004	One Month Ended July 31, 2004
<b>Revenues:</b>			
Service revenues	\$ 193,675	\$ 113,011	\$ 57,375
Equipment revenues	36,852	24,772	11,749
Total revenues	230,527	137,783	69,124
<b>Operating expenses:</b>			
Cost of service (exclusive of items shown separately below)	(50,304)	(32,873)	(18,161)
Cost of equipment	(49,576)	(31,383)	(12,770)
Selling and marketing	(25,535)	(16,769)	(6,805)
General and administrative	(41,306)	(21,707)	(8,982)
Depreciation and amortization	(49,076)	(29,547)	(26,273)
Impairment of indefinite-lived intangible assets	(689)		
Total operating expenses	(216,486)	(132,279)	(72,991)
Gain on sale of wireless licenses and operating assets (Note 7)	14,593		532
Operating income (loss)	28,634	5,504	(3,335)
Interest income	2,991	608	
Interest expense (contractual interest expense was \$22.7 million for the one month ended July 31, 2004)	(6,679)	(5,545)	(464)
Other income (expense), net	2,352	155	303
Income (loss) before reorganization items and income taxes	27,298	722	(3,496)
Reorganization items, net			963,156
Income before income taxes	27,298	722	959,660
Income taxes	(34,860)	(2,704)	(295)
Net income (loss)	(7,562)	(1,982)	959,365
<b>Other comprehensive income (loss):</b>			

Edgar Filing: LEAP WIRELESS INTERNATIONAL INC - Form 10-Q

Unrealized holding gains (losses) on investments, net		111		(110)	
Unrealized gains on derivative instruments		3,303			
Comprehensive income (loss)	\$	(4,148)	\$	(2,092)	\$ 959,365
Net income (loss) per share:					
Basic	\$	(0.13)	\$	(0.03)	\$ 16.36
Diluted	\$	(0.13)	\$	(0.03)	\$ 16.36
Shares used in per share calculations:					
Basic		60,246		60,000	58,631
Diluted		60,246		60,000	58,631

See accompanying notes to condensed consolidated financial statements.

**LEAP WIRELESS INTERNATIONAL, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND**  
**COMPREHENSIVE INCOME (LOSS)**  
**(UNAUDITED)**  
**(In thousands, except per share data)**

	Successor Company		Predecessor Company
	Nine Months Ended September 30, 2005	Two Months Ended September 30, 2004	Seven Months Ended July 31, 2004
<b>Revenues:</b>			
Service revenues	\$ 569,360	\$ 113,011	\$ 398,451
Equipment revenues	116,366	24,772	83,196
Total revenues	685,726	137,783	481,647
<b>Operating expenses:</b>			
Cost of service (exclusive of items shown separately below)	(150,109)	(32,873)	(113,988)
Cost of equipment	(141,553)	(31,383)	(97,160)
Selling and marketing	(73,340)	(16,769)	(51,997)
General and administrative	(119,764)	(21,707)	(81,514)
Depreciation and amortization	(144,461)	(29,547)	(178,120)
Impairment of indefinite-lived intangible assets	(12,043)		
Total operating expenses	(641,270)	(132,279)	(522,779)
Gain on sale of wireless licenses and operating assets (Note 7)	14,593		532
Operating income (loss)	59,049	5,504	(40,600)
Interest income	6,070	608	
Interest expense (contractual interest expense was \$156.3 million for the seven months ended July 31, 2004)	(23,368)	(5,545)	(4,195)
Other income (expense), net	1,027	155	(293)
Income (loss) before reorganization items and income taxes	42,778	722	(45,088)
Reorganization items, net			962,444
Income before income taxes	42,778	722	917,356
Income taxes	(35,165)	(2,704)	(4,166)
Net income (loss)	7,613	(1,982)	913,190

Edgar Filing: LEAP WIRELESS INTERNATIONAL INC - Form 10-Q

Other comprehensive income (loss):			
Unrealized holding gains (losses) on investments, net	130	(110)	
Unrealized gains on derivative instruments	1,996		
Comprehensive income (loss)	\$ 9,739	\$ (2,092)	\$ 913,190
Net income (loss) per share:			
Basic	\$ 0.13	\$ (0.03)	\$ 15.58
Diluted	\$ 0.13	\$ (0.03)	\$ 15.58
Shares used in per share calculations:			
Basic	60,093	60,000	58,623
Diluted	60,727	60,000	58,623

See accompanying notes to condensed consolidated financial statements.

**LEAP WIRELESS INTERNATIONAL, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(UNAUDITED)**  
**(In thousands)**

	<b>Successor Company</b>		<b>Predecessor Company</b>
	<b>Nine Months Ended September 30, 2005</b>	<b>Two Months Ended September 30, 2004</b>	<b>Seven Months Ended July 31, 2004</b>
<b>Operating activities:</b>			
Net cash provided by operating activities	\$ 191,191	\$ 27,045	\$ 120,623
<b>Investing activities:</b>			
Purchases of property and equipment	(82,259)	(13,568)	(34,456)
Prepayments for purchases of property and equipment	(1,137)	3,135	1,215
Purchases of and deposits for wireless licenses	(243,987)		
Proceeds from sale of wireless licenses and operating assets	99,050		2,000
Purchases of investments	(270,587)	(12,798)	(87,201)
Sales and maturities of investments	158,501	7,300	58,333
Restricted cash, cash equivalents and short-term investments, net	83	11,453	9,810
Net cash used in investing activities	(340,336)	(4,478)	(50,299)
<b>Financing activities:</b>			
Proceeds from long-term debt	600,000		
Repayment of long-term debt	(416,757)	(36,727)	
Payment of debt issuance costs	(6,951)		
Net cash provided by (used in) financing activities	176,292	(36,727)	
Net increase (decrease) in cash and cash equivalents	27,147	(14,160)	70,324
Cash and cash equivalents at beginning of period	141,141	154,394	84,070
Cash and cash equivalents at end of period	\$ 168,288	\$ 140,234	\$ 154,394
<b>Supplementary disclosure of cash flow information:</b>			
Cash paid for interest	\$ 44,951	\$ 8,227	\$
Cash paid for income taxes	280	140	76
Cash provided by (paid for) reorganization activities (included in net cash provided by			

operating activities):

Payments to Leap Creditor Trust	(990)
---------------------------------	-------

Payments for professional fees	(7,975)
--------------------------------	---------

Cash received from vendor settlements, net  
of cure amounts paid