

LEAP WIRELESS INTERNATIONAL INC

Form 10-Q/A

October 28, 2013

[Table of Contents](#)

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-Q/A**

**Amendment No. 1**

**(Mark One)**

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

**For the quarterly period ended June 30, 2013**

**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: 001-34865**

**Leap Wireless International, Inc.**

(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of

**33-0811062**  
(I.R.S. Employer

incorporation or organization)

Identification No.)

**5887 Copley Drive, San Diego, CA**  
(Address of Principal Executive Offices)

**92111**  
(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 report)

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 90 days. Yes ☐ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☐ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☐

Accelerated filer ☒

Non-accelerated filer ☐ (Do not check if a smaller reporting company)

Smaller reporting company ☐

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

The number of shares outstanding of the registrant's common stock on July 22, 2013 was 79,192,131.



**Table of Contents****Explanatory Note*****Overview***

Leap Wireless International, Inc. (the Company), is filing this Amendment No. 1 to Quarterly Report on Form 10-Q/A (this Amendment) to restate and amend the Company's previously issued unaudited condensed consolidated financial statements and related financial information for the three and six months ended June 30, 2013 and 2012 previously included in its Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2013 (the Original Form 10-Q), which was filed with the Securities and Exchange Commission on August 5, 2013 (the Original Filing Date). This Amendment amends and restates the Company's unaudited condensed consolidated financial statements and related disclosures in Part I Item 1. Financial Statements for the fiscal quarters ended June 30, 2013 and 2012, as well as related disclosures in Part I Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations, Part I Item 4. Controls and Procedures, Part II Item 1A. Risk Factors and Part II Item 6. Exhibits.

***Background to the Restatements***

On October 20, 2013, the Audit Committee of the Board of Directors of the Company concluded, in consultation with management and after discussion with the Company's independent registered public accounting firm (PricewaterhouseCoopers LLP), that, due to a classification error in the Company's presentation of certain capital expenditures in the consolidated statements of cash flows, related supplementary cash flow disclosures and guarantor footnotes, the consolidated financial statements for the years ended December 31, 2012 and 2011 and the unaudited condensed consolidated financial statements for the fiscal quarters ended March 31, 2013 and 2012, June 30, 2013 and 2012, and September 30, 2012 should no longer be relied upon.

As described further in Note 2 to the Company's unaudited condensed consolidated financial statements included in Part I Item 1. Financial Statements of this Amendment, the classification error related to certain purchases of property and equipment that were unpaid at each of the balance sheet dates (but that were scheduled to be settled in cash soon thereafter), which were incorrectly reflected as cash outflows from investing activities and cash inflows from operating activities.

***Effects of Restatements***

The following table illustrates the impact of the restatements on the condensed consolidated statements of cash flows for the six months ended June 30, 2013 and 2012 (unaudited, in thousands):

	Six Months Ended June 30, 2013			Six Months Ended June 30, 2012		
	As Previously Reported	Adjustment	As Restated	As Previously Reported	Adjustment	As Restated
<b>Operating Activities</b>						
Net cash provided by operating activities	\$ 15,028	\$ 17,671	\$ 32,699	\$ 50,619	\$ 35,259	\$ 85,878
<b>Investing Activities</b>						
Purchases of property and equipment	\$ (48,861)	\$ (17,671)	\$ (66,532)	\$ (265,412)	\$ (30,842)	\$ (296,254)
Change in prepayments for purchases of property and	(4,986)		(4,986)	(1,940)	(4,417)	(6,357)

equipment

Net cash used in investing

activities (202,503) (17,671) (220,174) (2,552) (35,259) (37,811)

Since the Company has not yet filed its Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2013, in this Amendment, the Company has also restated its unaudited condensed consolidated statement of cash flows and related guarantor financial information for the nine months ended September 30, 2012 to correct the classification error described above. These corrections are disclosed in Note 16 to the Company's unaudited condensed consolidated financial statements included in Part I Item 1. Financial Statements of this Amendment.

The resulting restatements have no impact on the total end-of-period cash and cash equivalents reported on the condensed consolidated statements of cash flows, on the related condensed consolidated balance sheets or condensed consolidated statements of comprehensive income, or on adjusted OIBDA (as defined herein) for any of the affected periods. The classification error was identified by management in connection with the preparation of the Company's third quarter 2013 financial statements.

**Table of Contents**

The Company has amended and restated in its entirety each Item of the Original Form 10-Q that required a change to reflect this restatement and to include certain additional information, namely: Part I Item 1. Financial Statements, Part I Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations, Part I Item 4. Controls and Procedures, Part II Item 1A. Risk Factors and Part II Item 6. Exhibits.

Pursuant to Rule 12b-15 under the Securities Exchange Act of 1934, as amended, or the Exchange Act, this Amendment contains only the items and exhibits to the Original Form 10-Q that are being amended and restated, and unaffected items and exhibits are not included herein. Except as stated above, the financial statements and other disclosures in the Original Form 10-Q are unchanged. In particular, this Amendment has not been updated to reflect any events that have occurred after the Original Form 10-Q was filed or to modify or update disclosures affected by other subsequent events. Accordingly, forward-looking statements included in this Amendment represent management's views as of the Original Filing Date and should not be assumed to be accurate as of any date thereafter. This Amendment should be read in conjunction with the Original Form 10-Q and the Company's filings with the Securities and Exchange Commission made subsequent to the Original Filing Date, together with any amendments to those filings.

Part II Item 6. Exhibits of this Amendment has been amended to include currently dated certifications from the Company's principal executive officer and principal financial officer, as required by Sections 302 and 906 of the Sarbanes-Oxley Act of 2002.

**Table of Contents**

**LEAP WIRELESS INTERNATIONAL, INC.**

**QUARTERLY REPORT ON FORM 10-Q/A**

**(Amendment No. 1)**

**For the Quarter Ended June 30, 2013**

**TABLE OF CONTENTS**

	<b>Page</b>
<b>PART I FINANCIAL INFORMATION</b>	
Item 1. <u>Financial Statements</u>	1
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	34
Item 4. <u>Controls and Procedures</u>	56
<b>PART II OTHER INFORMATION</b>	
Item 1A. <u>Risk Factors</u>	58
Item 6. <u>Exhibits</u>	79

**Table of Contents****PART I****FINANCIAL INFORMATION****Item 1. Financial Statements****LEAP WIRELESS INTERNATIONAL, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS****(In thousands, except share amounts)**

	<b>June 30, 2013 (Unaudited)</b>	<b>December 31, 2012</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 605,039	\$ 515,550
Short-term investments	308,012	159,426
Inventories	102,533	121,601
Deferred charges	49,331	60,963
Other current assets	167,442	139,242
<b>Total current assets</b>	<b>1,232,357</b>	<b>996,782</b>
Property and equipment, net	1,499,934	1,762,090
Wireless licenses	2,090,821	1,947,333
Assets held for sale (Note 10)	1,835	136,222
Goodwill	31,886	31,886
Intangible assets, net	18,581	24,663
Other assets	87,999	68,284
<b>Total assets</b>	<b>\$ 4,963,413</b>	<b>\$ 4,967,260</b>
<b>Liabilities and Stockholders Equity</b>		
Accounts payable and accrued liabilities	\$ 325,928	\$ 396,110
Current maturities of long-term debt	18,250	4,000
Other current liabilities	211,604	216,880
<b>Total current liabilities</b>	<b>555,782</b>	<b>616,990</b>
Long-term debt, net	3,619,964	3,298,463
Deferred tax liabilities	407,794	385,111
Other long-term liabilities	157,027	169,047
<b>Total liabilities</b>	<b>4,740,567</b>	<b>4,469,611</b>
Redeemable non-controlling interests	58,550	64,517



Commitments and contingencies (Note 14)

Stockholders' equity:

Preferred stock authorized 10,000,000 shares, \$.0001 par value; no shares issued and outstanding

Common stock authorized 160,000,000 shares, \$.0001 par value; 79,180,726 and 79,194,750 shares issued and outstanding at June 30, 2013 and December 31, 2012, respectively

	8	8
Additional paid-in capital	2,179,639	2,182,503
Accumulated deficit	(2,014,653)	(1,748,694)
Accumulated other comprehensive loss	(698)	(685)

Total stockholders' equity	164,296	433,132
----------------------------	---------	---------

Total liabilities and stockholders' equity	\$ 4,963,413	\$ 4,967,260
--	--------------	--------------

See accompanying notes to condensed consolidated financial statements.

**Table of Contents****LEAP WIRELESS INTERNATIONAL, INC.****CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME****(Unaudited and in thousands, except per share data)**

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
<b>Revenues:</b>				
Service revenues	\$ 678,497	\$ 751,285	\$ 1,363,119	\$ 1,525,283
Equipment revenues	53,046	35,487	158,282	87,108
Total revenues	731,543	786,772	1,521,401	1,612,391
<b>Operating expenses:</b>				
Cost of service (exclusive of items shown separately below)	249,371	256,555	500,229	517,866
Cost of equipment	183,658	171,673	442,626	419,520
Selling and marketing	69,397	77,247	148,235	172,801
General and administrative	83,402	94,892	165,627	184,591
Depreciation and amortization	150,856	154,483	303,429	301,026
Impairments and other charges (Note 8)	4,287		5,022	
Total operating expenses	740,971	754,850	1,565,168	1,595,804
Gain (loss) on sale, exchange or disposal of assets, net	1,870	(333)	6,858	(801)
Operating income (loss)	(7,558)	31,589	(36,909)	15,786
Equity in net income (loss) of investees, net	1,696	(59)	538	134
Interest income	58	28	105	57
Interest expense	(66,851)	(66,983)	(131,576)	(134,025)
Loss on extinguishment of debt	(72,988)		(72,988)	
Loss before income taxes	(145,643)	(35,425)	(240,830)	(118,048)
Income tax expense	(10,710)	(10,562)	(25,130)	(22,273)
Net loss	(156,353)	(45,987)	(265,960)	(140,321)
Accretion of redeemable non-controlling interests and distributions, net of tax	(6,756)	4,397	(8,461)	292
Net loss attributable to common stockholders	\$ (163,109)	\$ (41,590)	\$ (274,421)	\$ (140,029)
<b>Loss per share attributable to common stockholders:</b>				
Basic	\$ (2.09)	\$ (0.54)	\$ (3.53)	\$ (1.82)
Diluted	\$ (2.09)	\$ (0.54)	\$ (3.53)	\$ (1.82)

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

Shares used in per share calculations:

Basic	77,915	77,206	77,815	77,116
Diluted	77,915	77,206	77,815	77,116

Other comprehensive loss:

Net loss	\$ (156,353)	\$ (45,987)	\$ (265,960)	\$ (140,321)
Net unrealized holding gains (losses) on investments and other	(10)	10	(13)	12
Comprehensive loss	\$ (156,363)	\$ (45,977)	\$ (265,973)	\$ (140,309)

See accompanying notes to condensed consolidated financial statements.

**Table of Contents****LEAP WIRELESS INTERNATIONAL, INC.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(Unaudited and in thousands)**

	<b>Six Months Ended June 30,</b>	
	<b>2013</b>	<b>2012</b>
	<b>(As Restated, See Note 2)</b>	
<b>Operating activities:</b>		
Net cash provided by operating activities	\$ 32,699	\$ 85,878
<b>Investing activities:</b>		
Purchases of property and equipment	(66,532)	(296,254)
Change in prepayments for purchases of property and equipment	(4,986)	(6,357)
Purchases of wireless licenses and spectrum clearing costs	(2,337)	(2,712)
Proceeds from sales of wireless licenses and operating assets, net	3,404	1,420
Purchases of investments	(334,935)	(173,141)
Sales and maturities of investments	186,103	440,734
Change in restricted cash	(891)	(1,501)
Net cash used in investing activities	(220,174)	(37,811)
<b>Financing activities:</b>		
Proceeds from the issuance of long-term debt	1,414,313	
Repayment of long-term debt	(1,103,796)	
Payment of debt issuance costs	(15,800)	
Proceeds from issuance of common stock	620	483
Payments made to joint venture partners	(14,867)	(5,230)
Other	(3,506)	(2,187)
Net cash provided by (used in) financing activities	276,964	(6,934)
Net increase in cash and cash equivalents	89,489	41,133
Cash and cash equivalents at beginning of period	515,550	345,243
Cash and cash equivalents at end of period	\$ 605,039	\$ 386,376
<b>Supplementary disclosure of cash flow information:</b>		
Cash paid for interest	\$ (138,236)	\$ (126,747)
Cash paid for income taxes	\$ (4,088)	\$ (3,943)
<b>Supplementary disclosure of non-cash investing activities:</b>		
Acquisition of property and equipment	\$ 17,135	\$ 91,139
Net wireless licenses received in exchange transaction	\$ 6,809	\$

See accompanying notes to condensed consolidated financial statements.



**Table of Contents**

**LEAP WIRELESS INTERNATIONAL, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**Note 1. The Company**

Leap Wireless International, Inc. ( Leap ), a Delaware corporation, together with its subsidiaries and consolidated joint ventures, is a wireless communications carrier that offers digital wireless services in the United States under the

Cricket® brand. Cricket service offerings provide customers with unlimited nationwide wireless services for a flat rate without requiring a fixed-term contract or a credit check. The Company's primary service is Cricket Wireless, which offers customers unlimited nationwide voice and data services for a flat monthly rate. Leap conducts operations through its subsidiaries and has no independent operations or sources of income other than through interest income and dividends, if any, from its subsidiaries.

Cricket service is offered by Cricket Communications, Inc. ( Cricket ), a wholly-owned subsidiary of Leap. Cricket service is also offered in South Texas by STX Wireless Operations, LLC ( STX Operations ), which Cricket controls through a 75.75% membership interest in STX Wireless, LLC ( STX Wireless&#1