

LEAP WIRELESS INTERNATIONAL INC
Form DEFA14A
July 15, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

(RULE 14a-101)

SCHEDULE 14A INFORMATION

**Proxy Statement Pursuant to Section 14(a) of the
Securities Exchange Act of 1934**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-12

LEAP WIRELESS INTERNATIONAL, INC.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

Edgar Filing: LEAP WIRELESS INTERNATIONAL INC - Form DEFA14A

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

.. Fee paid previously with preliminary materials.

.. Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

Leap Wireless International, Inc. (Leap) is filing the attached presentation materials, which update the presentation materials filed with the Securities and Exchange Commission (SEC) on July 7, 2011 as Exhibit 99.1 to Leap 's current report on Form 8-K, and the presentation materials filed with the SEC on July 13, 2011 on Schedule 14A, in connection with Leap 's solicitation of proxies for proposals to be voted on at its 2011 Annual Meeting of Stockholders. Leap may present the attached materials to stockholders and others on future occasions. The information contained in the attached presentation materials is summary information that is intended to be considered in the context of Leap 's filings with the SEC and other public announcements. Leap undertakes no duty or obligation to publicly update or revise this information, although it may do so from time to time.

In connection with the 2011 Annual Meeting, Leap mailed to stockholders its definitive proxy statement filed with the SEC on June 28, 2011 (the Definitive Proxy Statement). In addition, Leap files annual, quarterly and special reports, proxy and information statements and other information with the SEC. Stockholders are urged to read the Definitive Proxy Statement and other information because they contain important information about Leap and the proposals to be presented at the 2011 Annual Meeting. These documents are available free of charge at the SEC 's website at www.sec.gov or from Leap at www.leapwireless.com. The contents of the websites referenced herein are not deemed to be incorporated by reference into the Definitive Proxy Statement.

Leap and its directors, executive officers and certain employees may be deemed to be participants in the solicitation of proxies from stockholders in connection with the election of directors and other proposals to be voted on at the 2011 Annual Meeting. Information regarding the interests, if any, of these directors, executive officers and specified employees is included in the Definitive Proxy Statement filed by Leap with the SEC.

Building Value
July 14, 2011

2

Presentation of Financial and Other Important Information

Presentation of Financial Information

Historical financial and operating data in this presentation reflect the consolidated results of Leap Wireless International, Inc. (the Company) and its wholly owned subsidiaries and joint ventures for the periods indicated. The term "voice services" refers to the Company's Cricket Wireless, Muve Music and other voice services. The term "data services" refers to the Company's Cricket Broadband service. This presentation includes financial information prepared in accordance with United States Generally Accepted Accounting Principles (GAAP), as well as other financial measures referred to as non-GAAP. The non-GAAP financial measures, which include Customer Addition (CPGA), Cash Cost Per User (CCU) and adjusted operating income before depreciation and amortization (AOI), are defined in the accompanying notes to the financial statements.

substitutes for, the information prepared in accordance with GAAP. For definitions of these non-GAAP financial measures and see the information under the heading Financial Reports Non-GAAP Financial Measures in the Investor Relations section Proxy Solicitation

In connection with the solicitation of proxies, Leap filed with the SEC on June 28, 2011 a definitive proxy statement and has filed proposals to be presented at Leap's 2011 Annual Stockholders Meeting (the 2011 Annual Meeting). Leap also mailed the files annual, quarterly and special reports, proxy and information statements and other information with the SEC. Leap's stock information because they contain important information about Leap and the proposals to be presented at the 2011 Annual Meeting website (www.sec.gov) or from Leap (www.leapwireless.com). The contents of the websites referenced herein are not deemed Leap and its directors, executive officers and certain employees may be deemed to be participants in the solicitation of proxies directors and other matters to be proposed at Leap's 2011 Annual Meeting. Information regarding the interests, if any, of these included in the definitive proxy statement filed by Leap with the SEC.

Forward-Looking Statements

This presentation contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, which are based on expectations based on currently available operating, financial and competitive information, but are subject to risks, uncertainties and other factors that may cause actual results to differ materially from those anticipated in or implied by the forward-looking statements. Our forward-looking statements include our expectations regarding our future performance, including as a result of our current and future product and service plan offerings, future plans to transition to LTE and expected results of our operations, and the names of our nominees to the board of directors and are generally identified with words such as believe, think, expect, estimate, anticipate, may, could, should, may and similar expressions. Risks, uncertainties and assumptions that could affect our forward-looking statements include: our ability to attract and retain customers in an extremely competitive marketplace; the duration and severity of the current economic downturn in the United States; changes in interest rates, consumer credit conditions, consumer debt levels, consumer confidence, unemployment rates, energy costs and other macroeconomic factors; the services we provide; the impact of competitors' initiatives; our ability to successfully implement product and service plan offerings; our ability to obtain and maintain roaming and wholesale services from other carriers at cost-effective rates; our ability to improve our financial reporting; our ability to attract, integrate, motivate and retain an experienced workforce, including members of our sales and marketing services, which could exceed our expectations, and our ability to manage or increase network capacity to meet increasing customer demand; our ability to provide services in the future at a reasonable cost or on a timely basis; our ability to comply with the covenants in any credit agreement, indenture or other financing instrument; our indebtedness; our ability to effectively integrate, manage and operate our new joint venture in South Texas; failure of our network to meet our performance expectations and risks associated with the upgrade or transition of certain of those systems, including our billing system; and other risks included in our periodic reports filed with the SEC, including our Quarterly Report on Form 10-Q for the quarter ended March 31, 2011. All forward-looking statements included in this presentation should be considered in the context of these risks. We undertake no obligation to update our forward-looking statements, whether as a result of new information, future events or otherwise. In light of these risks and uncertainties, the forward-looking statements included in this presentation may not occur and actual results could differ materially from those anticipated or implied in the forward-looking statements. You should not place undue reliance on our forward-looking statements.

Executive Overview

Industry Perspective
Rapid Growth of Prepaid

Business Update
On Trajectory to Grow Stockholder Value

Board of Directors
Experienced and Independent

Pentwater Proposal and Proxy Contest
Opportunistic and Non-Compliant

Conclusion
Vote FOR
Leap's nominees on the WHITE Proxy Card
3
Agenda

Leap
implemented
significant
changes
in
2010
to

better
position
business

-
Simple, all-inclusive service plans

-
New device portfolio, including smartphones

-
Nationwide voice and data coverage

-
Additions to senior management to better align with customers and improve execution

-
Completion of significant back-office system enhancements

Believe
initiatives
delivered
dramatic
improvements
in
operating
performance,
demonstrated
by:

-
Customer churn at lowest levels in nearly a decade, with voice churn of 2.8% in 1Q11

-
Smartphones and accompanying \$55 service plan comprised approximately 40% of our sales mix at 1Q11, with customer upgrades and migrations continuing at unprecedented rates

-
Significant improvements in average revenue per user (ARPU), driven by adoption of smartphones and higher-revenue service plans

Believe
changes
position
Leap
for
improved
financial
results
and
increased
stockholder
value

-
Leap
stock
up
54%

between
August
4,
2010

after
new
initiatives
presented
at
Leap s
Analyst
Day

and
July
12,
2011

-
Board and management continuing to implement additional initiatives to continue momentum and position the Company for the future

Leap
is
led
by
an
experienced
and
independent
Board
of
Directors
4
Executive Overview

Leap
Keep Leap on track for improved stockholder value
vote FOR
Leap s nominees on the WHITE proxy card

Pentwater
lacks
any
strategy
for
the
Company

beyond
actions
Leap
is
already
pursuing

Pentwater
is
interested
only
in
short-term
profit

and
has
reduced
its
net
holdings
in
Leap
stock
by ~40%
since announcing proxy fight

What Pentwater Didn't Do

-
Discuss
operational
proposals/suggestions
with
the
Company
prior
to
initiating
proxy
fight

-
Disclose all material information when nominating directors

-
Commence
action
in
Delaware
for
months
after

being
informed
on
March
31
that
they
didn't
comply
with
Bylaws

-
Ask for a waiver under Leap's NOL preservation plan to purchase 5% or more of Leap stock

What Pentwater Did Do

-
Submitted
what
Leap
believes
is
a
non-compliant
nomination
one
day
before
end
of
notice
period

-
Reduced
its
net
holdings
in
Leap
stock
by
~40%
in
the
three
months
after
announcing
proxy
fight,
including

selling on day they filed initial proxy statement

-

Established

short

position

covering

more

than

1.6M

Leap

shares,

equal

to

~67%

of

its

2.4M

shares

held

as

of

6/20/11

Votes

for

Pentwater

will

not

be

counted

absent

contrary

Delaware

court

judgment

5

Executive Overview

Pentwater Capital Management

Keep Leap on track for improved stockholder value

vote FOR

Leap s nominees on the WHITE proxy card

st

INDUSTRY PERSPECTIVE
Rapid Growth of Prepaid
6

7

Innovative, leading prepaid wireless carrier in U.S.
with ~6 million customers

Nation's 7th largest wireless carrier

Offers unlimited voice, text and data services and

national coverage under Cricket brand; flat rates and no contracts

Targets young, ethnically diverse and value-conscious customer base among the fastest growing market segments

Leverages industry-leading cost structure to provide services at prices below most competitors

Holds spectrum licenses in 35 of top 50 U.S. markets

Offers nationwide service via existing network and strategic roaming partnerships

Leap Snapshot

Prepaid Wireless Industry Leader

2006
2013E
CAGR:
14%
3%
Prepaid
Postpaid
Prepaid

% of total

19%

33%

Share of Net Adds (%)

Subscribers (M)

Source: Oppenheimer Equity Research Industry Update, dated March 8, 2011

8

27%

Prepaid Segment Drives Wireless Industry Growth

Wireless subscribers increasingly using devices for data services, internet access and mobile applications

Mobile data traffic in North America expected to grow 80% annually through 2015

Explosive Growth of Mobile-Only Internet Users
Smartphone Opportunity for Prepaid Carriers

To date, smartphones have been sold
predominantly to higher-end customers

With increased adoption of data services
and smartphones by the mass market,
significant opportunity exists for prepaid
carriers

Number of Users in North America (M)

4Q10 Smartphone Penetration

9

Source: Morgan Stanley Research Report, dated April 18, 2011

Source: Cisco Visual Networking Index: Global Mobile Data Forecast, February 2011

Smartphones are a Significant Opportunity for Prepaid

Leap's Prepaid Penetration
10
Prepaid
Subscribers
/
Covered
POP
as

of
1Q11

(1)

6%

3%

5%

7%

9%

Leap

T-Mobile

Sprint

Tracfone

MetroPCS

(1)

Based upon results for the quarter ended March 31, 2011, as reported in filings on Form 10-Q and/or earnings releases for Leap, Sprint, America Movil and MetroPCS; covered POPs data assumes 95M for Leap, 99M for MetroPCS and 280M for T-Mobile America Movil

(2)

Based on America Movil's earnings release for the quarter ended March 31, 2011

Leap's penetration in the prepaid segment is greater than Sprint and T-Mobile

Although Tracfone has the largest number of prepaid subscribers, it has the lowest EBITDA margin (7%) and lowest ARPU (\$14) among prepaid competitors

(2)

Subs.

(MM)

(1)

5.8

7.7

13.1

18.5

8.9

Leap Has Increased ARPU Near Highest In Industry

11

Prepaid ARPU (\$)

Leap

Sprint

T-Mobile

1Q10

1Q11

MetroPCS

1.5%

3.4%

3.2%

5.6%

% Increase

Tracfone

27.3%

Source: Results for the quarter ended March 31, 2011, as reported in filings on Form 10-Q and/or earnings releases for Leap, MetroPCS, Sprint, T-Mobile and America Movil

Leap Has Significantly Lowered Churn to Best in Industry

12

MetroPCS

Leap

1Q10

1Q11

Prepaid Churn (%)

Sprint

Increase /
Decrease (bps)
T-Mobile
Tracfone

Source: Results for the quarter ended March 31, 2011, as reported in filings on Form 10-Q and/or earnings releases for Leap, MetroPCS, Sprint, T-Mobile and America Movil

BUSINESS UPDATE
On Trajectory to Grow Stockholder Value
13

Significant Business Initiatives in 2010
to Meet Evolving Customer Needs
14

Introduced all-inclusive, unlimited
nationwide voice and broadband
service plans

Eliminated activation fees and telecommunications taxes to improve customer experience

Experienced significant customer adoption and migration to new service plans
at YE10, two-thirds of customer base had migrated to new plans

Introduced robust, new line-up of affordable devices, including smartphones, touchscreens, feature phones and broadband devices

Increasing customer demand for new smartphones driving selection of higher-revenue service plans and increased ARPU
40% of new handset sales in 1Q11 were for smartphones

Entered into nationwide roaming agreements to allow nationwide product and service offerings

Entered into nationwide wholesale agreement to supplement 95M CPOP network with Sprint's nationwide 3G network

Believe agreements improve competitive position and enable Leap to strengthen brand, attract new customers and enhance and expand nationwide retail distribution

New Plans

New Devices

Nationwide Reach

Other Key Initiatives Furthering Leap Performance

Transitioned executive management team to more closely align with customers and improve execution

-

Appointed new EVP/COO to lead customer focused support organizations

-

Appointed new EVP, Field Operations and appointed three area presidents to improve field execution

-

Added other senior management leaders focused on vision and execution

Fundamentally overhauled back-office systems

-

Replaced billing, inventory and point-of-sale systems

-

Believe new systems significantly improved planning, forecasting, supply chain and procurement capabilities

Continued management of balance sheet for liquidity and growth

-

Refinanced

\$1.1B

of

senior

unsecured

debt

to

2020,

reducing

cash

interest

expense

by

\$10M

annually

-

Recently issued \$400M of senior notes to provide additional working capital for growth initiatives

Entered into key strategic transactions

-

Formed new joint venture in South Texas, acquiring ~323,000 former customers of Pocket Communications to create Leap s r
deeply-penetrated market

-

Acquired complete ownership and control of Cricket markets in Chicago, Southern Wisconsin and Oregon

-

Believe

transactions

improved