LEAP WIRELESS INTERNATIONAL INC
Form DEFA14A
July 26, 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 x 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

x 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):

x 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:

(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 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.

LEAP WIRELESS INTERNATIONAL, INC.
Response to Institutional Shareholder Services Report
July 25, 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 or Leap) and its subsidiaries and consolidated joint ventures for the periods indicated. The term voice services refers to the Company s Cricket Wireless, Muve Music and Cricket PAYGo service offerings, and the term broadband services refers to the Company s Cricket Broadband service. This presentation includes financial information prepared in accordance with accounting principles generally accepted in the United States (GAAP), as well as other financial measures referred to as non-GAAP. The non-GAAP financial measures, w
Customer Addition (CPGA), Cash Cost Per User (CCU) and adjusted operating income before depreciation and amortization (

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 of Leap s corporate website (investor.leapwireless.com).

Proxy Solicitation

In connection with the solicitation of proxies, Leap filed with the SEC on June 28, 2011 a definitive proxy statement and has fi
proposals to be presented at Leap s 2011 Annual Stockholders
Meeting (the 2011 Annual Meeting). Leap also mailed the definitive proxy statement to its stockholders. In addition, Leap
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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. Such statements reflect management s current expectations based on currently available operating, financial and competitive information, but are subject to risks, uncertaintie materially from those anticipated in or implied by the forward-looking statements. Our forward-looking statements include our including as a result of our current and future product and service plan offerings, future plans to transition to LTE and expected nominees to the board of directors and are generally identified with words such as believe, think , expect, estimate, intend, seek, anticipate, continue, plan, will, could, should, may and similar expressions. Risks, uncertainties and assumptions that could affect our forward-looking statements include, among customers in an extremely competitive marketplace; the duration and severity of the current economic downturn in the United rates, consumer credit conditions, consumer debt levels, consumer confidence, unemployment rates, energy costs and other ma the services we provide; the impact of competitors initiatives; our ability to successfully implement product and service plan offerings, expand our retail distribution and execute on our other strategic activities; our ability to obtain and maintain roaming and wholesale services from other carriers at cost-e over financial reporting; our ability to attract, integrate, motivate and retain an experienced workforce, including members of s services, which could exceed our expectations, and our ability to manage or increase network capacity to meet increasing custo future at a reasonable cost or on a timely basis; our ability to comply with the covenants in any credit agreement, indenture or similar instrument governing any of our existing or future indebtedness; our ability to effectively integrate, manage and operate our new joint venture in South Texas; failure of our netw expectations and risks associated with the upgrade or transition of certain of those systems, including our billing system; and other factors detailed in the section entitled Risk Factors included in our periodic reports filed with the SEC, including our Quarterly Report on Form 10-Q for the quarter ended March All forward-looking statements included in this presentation should be considered in the context of these risks. We undertake n statements, whether as a result of new information, future events or otherwise. In light of these risks and uncertainties, the forw presentation may not occur and actual results could differ materially from those anticipated or implied in the forward-looking s not to place undue reliance on our forward-looking statements.

As investors review the analysis from Institutional Shareholder Services (ISS), they should take into account critical information that we believe **ISS failed to consider in making its** recommendation,
including:

Pentwater s
opportunistic,

short-term history of trading in Leap stock and its track record of disregarding other stockholders interests

MHR s long-term focus, track record of producing stockholder value

The lack of qualifications of the director nominees proposed by Pentwater and the risk we believe is posed to stockholder value if these nominees are elected to the Leap Board

Extensive telecommunications experience of Leap s nominees

Leap s positive financial and operating performance compared to its relevant peer group

The success of Leap s broadband strategy

The Leap Board recommends that you vote FOR the slate of qualified Leap nominees on the WHITE proxy card and

encourages
you
to
simply
discard
any
gold
proxy
card
sent
to
you
by
Pentwater
3
Leap believes ISS has failed to consider critical information
in making its recommendation

What ISS Failed to Consider:
Pentwater s Interests Not Aligned with Stockholders

Pentwater s track record reveals its **opportunistic short-term focus** and in
Leap s view Pentwater has **no interest in providing value to other** stockholders.

In contrast, MHR is a private equity fund with a **long-term focus**
that has
provided **tremendous value**
to other stockholders.
-
Pentwater has **sold and shorted**
Leap stock since announcing the proxy
contest whereas MHR has **never sold or shorted**
Leap stock.
-
Net of its short position, **Pentwater s holdings represent only ~1%**
of
Leap s shares, whereas **MHR holds ~20%**
of Leap s shares.
-
Pentwater **sold down its entire position**
in Post Properties prior to placing
a director on the Post board.
-
Pentwater risked the interests of all other BPW Acquisition Corp. stock and
warrant holders by attempting to **hold up**
the merger of BPW and Talbots in
order to **extract further value for itself.**
-
Pentwater has **no track record of producing value at public**
companies
whereas **Loral s stock price has increased ~340%**
since
September 2008, all while three of Leap s nominees served on the board.
Pentwater s interests aligned
with other stockholders
and
would give unaffiliated
shareholders a strong voice in
the boardroom.
ISS says
Reality
4

MHR supported Leap **replacing ~30% of its vice presidents and other**
members of senior management
last year in order to ensure that it had the
right management team in place to execute Leap s current operational strategy.
MHR not willing to hold
management and other board
members accountable

What ISS Failed to Consider:
Halbower s Lack of Experience and Long-Term Interest
...Halbower is the most obvious
candidate
and will be able to
contribute immediately to board
deliberations and strategic
discussions.

ISS says . . .
Reality
5

Halbower has no relevant telecommunications experience
he has **never**
worked for, managed or sat on the board of a telecommunications
company.

Halbower has nothing new to propose. We believe Pentwater s plan
for Leap is
vague, misinformed and **does not contain a single idea**
that the Board hasn t
either implemented or initiated with significantly more depth.

Halbower **never asked to speak to the Leap Board or management team**
to discuss Pentwater s operational proposals

we believe this is because he
simply **doesn t have anything new to propose.**

In our view, Halbower s firm (Pentwater) takes a short-term approach to investing
and
his
track
record
suggests
he
is
not
likely
to
have
a
vested
interest
in
giving stockholders a voice
in the boardroom:

In 2008, Pentwater ran a proxy contest at Post Properties, which
was
settled by allowing David R. Schwartz to stand for election to the board.
Schwartz served on the Post board for **only 14 months.**

Even
before
Mr.
Schwartz
joined

Post s board, Pentwater had already sold its entire position in Post common stock.

Between the time Pentwater announced its proxy contest and when Schwartz resigned, Post s share price **dropped 57%.**

What ISS Failed to Consider:
Poor Track Record of Pentwater s Nominees
The dissident has explicitly
identified two nominees
Switz
and Roscitt

with extensive,

relevant senior-level industry experience.
ISS says . . .
Reality
6

Switz and Roscitt are experienced in the telecom industry experienced in presiding over the destruction of value for stockholders in the telecom industry.

While Roscitt was Chairman and CEO of ADC Telecommunications, its stock price plummeted 84%. During his tenure on the board of Net2Phone, Net2Phone s stock price declined 60%, and during his time on Sequoia Software s board, Sequoia s stock price fell 44%.

Switz has a similar track record. ADC Telecommunications was sold for **16% less** per share than the share price when Switz became CEO seven years earlier

(after succeeding Roscitt). During Switz s
tenure on the board of Micron
Technology, Micron s stock price has **declined 54%**,
and during his tenure on
the board of Hickory Tech Corporation, Hickory s stock price **declined 22%.**

What ISS Failed to Consider:
Experience of Leap s Directors and Nominees
ISS says . . .
Reality
7
Other than the CEO, this [telecom] experience [of the incumbent directors] appears

to be largely their experience as directors of Leap . Moreover, with its two newest nominees the board appears to have continued its pattern of nominating candidates without any operating experience in the industry.

Simply **not true** that Leap s directors and nominees lack relevant experience.

Dr. Rachesky serves as Chairman of Loral Space & Communications (satellite communications) and Telesat Canada (satellite communications for television and telephone networks).

Mr. Targoff is a director of Loral and ViaSat (satellite/digital communications) and was **founder and principal** of a private investment company focused on early-stage companies in **telecommunications and related industries.**

Mr. Harkey has been an **executive of and investor in** companies in diverse industries, including retail, hospitality and **telecommunications and serves on** the Loral Board.

Mr. Leavitt (a Leap nominee) is a managing director and the current head of

global technology,
media and telecommunications
at an investment bank.

Ms. Kruger (a Leap nominee) served as an executive vice president of **Qwest**
Communications
(residential and business telecom services) and **Excel**
Communications
(integrated voice and data communications products and
services).

Mr. Hutcheson, Leap s president, CEO, a director and a member of Leap s founding
management team served as vice president, marketing in the Wireless
Infrastructure Division at **Qualcomm Incorporated**
(mobile technologies).

What ISS Failed to Consider:
Positive Performance Compared to Relevant Peers
ISS says
Reality
8
MetroPCS is Leap s nearest
and most relevant
peer and

compares Leap s financial and operational performance only to MetroPCS in its report

There is only a 5% overlap in markets between Leap and MetroPCS.

There is a **greater than 90% overlap in markets between Leap and Sprint,** Verizon, T-Mobile and AT&T.

When Leap s performance is viewed within the broader prepaid wireless section, Leap compares favorably as demonstrated by 1Q11 results:

Leap s **penetration rate (6%)** within the prepaid segment as a percentage of covered POPs was higher than T-Mobile (3%) and Sprint (5%) and just behind Tracfone (7%).

Leap s **average revenue per user** (ARPU) of $39.35 increased near the highest in the prepaid segment, ahead of Sprint, T-Mobile and Tracfone.

Leap s **churn** (3.1%) was among the **lowest in the prepaid segment**, again ahead of Sprint, T-Mobile and Tracfone.

ISS says
Reality
9
Leap s cost structure is
excessive relative to PCS

Leap operates in 65 markets whereas MetroPCS operates in only 13

Leap s markets have **significantly less population density**
than MetroPCS,
although the size of Leap s operating markets (on a covered POPs basis) has
continued to grow
with each wave of markets launched since 2000

Despite the difference in population density, **Leap has been able to deliver**
comparable sales, general and administrative costs to MetroPCS
when
compared on an apples-to-apples basis
only a 6% average difference in SG&A
per covered POP over the last four quarters
Leap s foray
into broadband
diverted and wasted
considerable corporate
resources
and endorses that
PCS, by contrast, eschewed
a broadband strategy

ISS fails to understand that
Leap s 3G strategy has been a strong success
-
Broadband service has contributed **over $72 million of adjusted OIBDA**
over the last four quarters
-
Established a **solid foundation**
for Leap s current smartphone offerings

Carriers who skipped the initial broadband investment are now forced, due to
slow
LTE
adoption,
to
spend
substantial
additional
capital
to
upgrade
their
2G
networks
and
improve
the
significantly
limited
customer

experience
for
3G smartphones on their networks
-
Other carriers likely to **lose subscribers**
frustrated with poor performance
of their 3G smartphone devices on 2G networks
What ISS Failed to Consider:
Comparable SG&A and 3G Success

APPENDIX

% of Coverage Overlap with Leap (Based on Square Miles)
Leap Has Minimal Coverage Overlap with MetroPCS vs.
Other Wireless Peers
11
Source: CoverageRight from American Roamer Database

13
65
Leap
MetroPCS
Leap Operates in More Markets with Less Population
Density than MetroPCS
Covered POPs (MM)
(2)

:
95
99
Total Markets
(1)
Based
upon
information
in
MetroPCS s
annual
report
on
Form
10-K
for
the
year
ended
December
31,
2010;
MetroPCS
markets
include
Los
Angeles,
New
York
City,
San
Francisco,
Dallas,
South
Florida,
Detroit,
Boston/Hartford,
Philadelphia,
Atlanta,
North
Florida,
Sacramento,
Central
Florida
and
Las
Vegas
(2)
Covered
POPs

calculated
based
on
95.3M
POPs
for
Leap
and
98.7M
POPs
for
MetroPCS
7.6
1.5
Leap
MetroPCS
741
874
Leap
MetroPCS
Average Covered POPs
Per Market (MM)
Average Density Per Market
(Covered POPs / Square Mile)
(1)
12

Leap SG&A Comparable to MetroPCS
13

Leap SG&A comparable to Metro SG&A on apples-to-apples comparison

Metro reports SG&A in aggregate (1Q11: $169.8M); identifies selling cost component (1Q11: $91.9M) in CPGA reconciliation

Leap separately reports G&A (1Q11: $95.4M) and selling cost (1Q11: $109.8M)

Leap, however, includes Customer Care and Billing expense (1Q11: $33.7M) in reported G&A; Metro does not include in reported G&A but instead includes in Cost of Service

Bar charts above eliminate $33.7M of Leap 1Q11 Customer Care and Billing expense from Leap G&A to align with Metro SG&A reporting methodology

Leap sells greater percentage of handsets in Company-owned stores. Leap Selling Cost reflects expenses related to larger number of retail stores and retail store employees

Source: Leap s and MetroPCS s quarterly reports on Form 10-Q and related earnings releases for the quarter ended March 31, 2011. Covered POPs calculations based on 95.3M POPs for Leap and 98.7M POPs for MetroPCS

SG&A Per Covered POP 1Q09
1Q11
14

Leap currently operates in 65 markets and MetroPCS operates in 13

Relative quarterly spending varies depending on companies
respective market launch activities and

promotional efforts

Increased sales and marketing expense for Leap in 1Q09 due to market launch activities in Philadelphia and Chicago

Increased promotional efforts for Leap in 3Q09 in response to competitive Boost Mobile activity

Despite significant difference in number of markets, only a 6% average difference in SG&A per covered POP over last four quarters

Source: Leap s and MetroPCS annual reports on Form 10-K, quarterly reports on Form 10-Q and/or earnings releases for the periods presented.