LEAP WIRELESS INTERNATIONAL INC
Form 10-Q/A
October 28, 2013
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q/A

Amendment No. 1

(Mark One)

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

For the quarterly period ended March 31, 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	**33-0811062**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
5887 Copley Drive, San Diego, CA	**92111**
(Address of Principal Executive Offices)	**(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 x 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 x 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 x
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 x

The number of shares outstanding of the registrant s common stock on April 22, 2013 was 79,045,864.

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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 months ended March 31, 2013 and 2012 previously included in its Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2013 (the Original Form 10-Q), which was filed with the Securities and Exchange Commission on May 2, 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 March 31, 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 three months ended March 31, 2013 and 2012 (unaudited, in thousands):

	Three Months Ended March 31, 2013			**Three Months Ended March 31, 2012**		
	As Previously Reported	**Adjustment**	**As Restated**	**As Previously Reported**	**Adjustment**	**As Restated**
Operating Activities						
Net cash provided by operating activities	$ 25,557	$ 2,463	$ 28,020	$ 35,357	$ 22,387	$ 57,744
Investing Activities						
Purchases of property and equipment	$ (26,362)	$ (2,463)	$ (28,825)	$ (146,314)	$ (17,970)	$ (164,284)
				(1,940)	(4,417)	(6,357)

Change in prepayments for purchases of property and equipment						
Net cash used in investing activities	(7,427)	(2,463)	(9,890)	(23,417)	(22,387)	(45,804)

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.

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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.

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LEAP WIRELESS INTERNATIONAL, INC.

QUARTERLY REPORT ON FORM 10-Q/A

(Amendment No. 1)

For the Quarter Ended March 31, 2013

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PART I

FINANCIAL INFORMATION

Item 1. Financial Statements

LEAP WIRELESS INTERNATIONAL, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share amounts)

	March 31, 2013 (Unaudited)	December 31, 2012
Assets		
Cash and cash equivalents	$ 526,734	$ 515,550
Short-term investments	140,404	159,426
Inventories	102,028	121,601
Deferred charges	60,947	60,963
Other current assets	149,173	139,242
Total current assets	979,286	996,782
Property and equipment, net	1,628,827	1,762,090
Wireless licenses	2,090,654	1,947,333
Assets held for sale (Note 9)		136,222
Goodwill	31,886	31,886
Intangible assets, net	21,429	24,663
Other assets	80,548	68,284
Total assets	$ 4,832,630	$ 4,967,260
Liabilities and Stockholders Equity		
Accounts payable and accrued liabilities	$ 287,862	$ 396,110
Current maturities of long-term debt	4,000	4,000
Other current liabilities	289,469	216,880
Total current liabilities	581,331	616,990
Long-term debt, net	3,299,593	3,298,463
Deferred tax liabilities	397,429	385,111
Other long-term liabilities	166,828	169,047
Total liabilities	4,445,181	4,469,611
Redeemable non-controlling interests	63,519	64,517

Commitments and contingencies (Note 13)		
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; 79,054,530 and 79,194,750 shares issued and outstanding at March 31, 2013 and December 31, 2012, respectively	8	8
Additional paid-in capital	2,182,912	2,182,503
Accumulated deficit	(1,858,301)	(1,748,694)
Accumulated other comprehensive loss	(689)	(685)
Total stockholders equity	323,930	433,132
Total liabilities and stockholders equity	$ 4,832,630	$ 4,967,260

See accompanying notes to condensed consolidated financial statements.

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LEAP WIRELESS INTERNATIONAL, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited and in thousands, except per share data)

	Three Months Ended March 31, 2013	Three Months Ended March 31, 2012
Revenues:		
Service revenues	$ 684,622	$ 773,998
Equipment revenues	105,236	51,621
Total revenues	789,858	825,619
Operating expenses:		
Cost of service (exclusive of items shown separately below)	250,858	261,311
Cost of equipment	258,968	247,847
Selling and marketing	78,838	95,554
General and administrative	82,225	89,699
Depreciation and amortization	152,573	146,543
Impairments and other charges (Note 7)	735	
Total operating expenses	824,197	840,954
Gain (loss) on sale, exchange or disposal of assets, net	4,988	(468)
Operating loss	(29,351)	(15,803)
Equity in net income (loss) of investees, net	(1,158)	193
Interest income	47	29
Interest expense	(64,725)	(67,042)
Loss before income taxes	(95,187)	(82,623)
Income tax expense	(14,420)	(11,711)
Net loss	(109,607)	(94,334)
Accretion of redeemable non-controlling interests and distributions, net of tax	(1,705)	(4,105)
Net loss attributable to common stockholders	$ (111,312)	$ (98,439)
Loss per share attributable to common stockholders:		
Basic	$ (1.43)	$ (1.28)
Diluted	$ (1.43)	$ (1.28)
Shares used in per share calculations:		
Basic	77,714	77,025

Diluted	77,714	77,025
Other comprehensive loss:		
Net loss	$ (109,607)	$ (94,334)
Net unrealized holding gains (losses) on investments and other	(3)	2
Comprehensive loss	$ (109,610)	$ (94,332)

See accompanying notes to condensed consolidated financial statements.

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LEAP WIRELESS INTERNATIONAL, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited and in thousands)

	Three Months Ended March 31, 2013 (As Restated, See Note 2)	2012
Operating activities:		
Net cash provided by operating activities	$ 28,020	$ 57,744
Investing activities:		
Purchases of property and equipment	(28,825)	(164,284)
Change in prepayments for purchases of property and equipment		(6,357)
Purchases of wireless licenses and spectrum clearing costs	(335)	(976)
Proceeds from sales of wireless licenses and operating assets, net	321	855
Purchases of investments	(65,767)	(77,149)
Sales and maturities of investments	84,716	202,107
Net cash used in investing activities	(9,890)	(45,804)
Financing activities:		
Repayment of long-term debt	(1,000)	
Payment of debt issuance costs	(552)	
Payments made to joint venture partners	(3,750)	(255)
Other	(1,644)	(1,010)
Net cash used in financing activities	(6,946)	(1,265)
Net increase in cash and cash equivalents	11,184	10,675
Cash and cash equivalents at beginning of period	515,550	345,243
Cash and cash equivalents at end of period	$ 526,734	$ 355,918
Supplementary disclosure of cash flow information:		
Cash paid for interest	$ (11,209)	$ (21,372)
Supplemental disclosure of non-cash investing activities		
Acquisition of property and equipment	$ 23,584	$ 78,230
Net wireless licenses received in exchange transaction	$ 6,809	$

See accompanying notes to condensed consolidated financial statements.

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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), the parent company of STX Operations. For more information regarding this joint venture, see Note 9. Significant Acquisitions and Other Transactions.

Leap, Cricket and their subsidiaries and consolidated joint ventures are collectively referred to herein as the Company.

Note 2. Restatement of Previously Reported Condensed Consolidated Financial Statements

The Company has restated its unaudited condensed consolidated statements of cash flows for the three months ended March 31, 2013 and 2012 due to a classification error related to the presentation of certain capital expenditures and operating cash flows.

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. This classification error resulted in a misstatement of net cash provided by operating activities and net cash used in investing activities, as follows (unaudited, in thousands):

	Three Months Ended March 31, 2013			Three Months Ended March 31, 2012		
	As Previously Reported	Adjustment	As Restated	As Previously Reported	Adjustment	As Restated
Operating Activities						
Net cash provided by operating activities	$ 25,557	$ 2,463	$ 28,020	$ 35,357	$ 22,387	$ 57,744
Investing Activities						
Purchases of property and equipment	$ (26,362)	$ (2,463)	$ (28,825)	$ (146,314)	$ (17,970)	$ (164,284)

Change in prepayments for purchases of property and equipment				(1,940)	(4,417)	(6,357)
Net cash used in investing activities	(7,427)	(2,463)	(9,890)	(23,417)	(22,387)	(45,804)

The Company has also reflected these corrections as applicable in its condensed consolidated financial statements and also in the condensed consolidating statements of cash flows presented in Note 14. Guarantor Financial Information.

The resulting restatement has no impact on the total end-of-period cash and cash equivalents reported on the condensed consolidated statements of cash flows or on the related condensed consolidated balance sheets or condensed consolidated statements of comprehensive income for any of the affected periods.

Note 3. Basis of Presentation and Significant Accounting Policies

Basis of Presentation

The accompanying interim condensed consolidated financial statements have been prepared without audit in accordance with the instructions to Form 10-Q, and therefore do not include all information and footnotes required by accounting principles generally accepted in the United States of America (GAAP) for a complete set of financial statements. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company s Amendment No. 1 to Annual Report on Form 10-K/A for the year ended December 31, 2012. In the opinion of management, the unaudited financial information for the interim periods presented reflects all adjustments necessary for a fair presentation of the Company s results for the periods presented, with such adjustments consisting only of normal recurring adjustments. GAAP requires management to make estimates and assumptions that affect

LEAP WIRELESS INTERNATIONAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the reported amounts of revenues and expenses. By their nature, estimates are subject to an inherent degree of uncertainty. Actual results could differ from management s estimates and operating results for interim periods are not necessarily indicative of operating results for an entire fiscal year.

Principles of Consolidation

The condensed consolidated financial statements include the operating results and financial position of Leap and its wholly-owned subsidiaries as well as the operating results and financial position of STX Wireless and its wholly-owned subsidiaries. The Company consolidates STX Wireless in accordance with the authoritative guidance for consolidations based on the voting interest model. All intercompany accounts and transactions have been eliminated in the condensed consolidated financial statements.

Segment and Geographic Data

The Company operates in a single operating segment and a single reporting unit as a wireless communications carrier that offers digital wireless services in the United States. As of and for the three months ended March 31, 2013 and 2012, all of the Company s revenues and long-lived assets related to operations in the United States.

Revenues

The Company s business revenues principally arise from the sale of wireless services, devices (handsets and broadband modems) and accessories. Wireless services are provided primarily on a month-to-month basis. The Company s customers are required to pay for their service in advance and the Company does not require customers to sign fixed-term contracts or pass a credit check. Service revenues are recognized only after payment has been received and services have been rendered.

When the Company activates service for a new customer, it often sells that customer a device along with a period of service. In accordance with the authoritative guidance for revenue arrangements with multiple deliverables, the sale of a device along with service constitutes a multiple element arrangement. Under this guidance, once a company has determined the best estimate of selling price of the elements in the sales transaction, the total consideration received from the customer must be allocated among those elements on a relative selling price basis. Applying the guidance to these transactions results in the Company recognizing the total consideration received, less amounts allocated to the wireless service period (generally the customer s monthly service plan), as equipment revenue.

Amounts allocated to equipment revenues and related costs from the sale of devices are recognized when service is activated by new customers. Revenues and related costs from the sale of devices and accessories to existing customers are recognized at the point of sale. The costs of devices and accessories sold are recorded in cost of equipment. In addition to devices that the Company sells directly to its customers at Cricket-owned stores, the Company sells devices to third-party dealers, including nationwide retailers. These dealers then sell the devices to the ultimate Cricket customer, similar to the sale made at a Cricket-owned store. Sales of devices to third-party dealers are recognized as equipment revenues only when service is activated by customers, since the level of price reductions and commissions ultimately available to such dealers is not reliably estimable until the devices are sold by such dealers to customers. Thus, revenues from devices sold to third-party dealers are recorded as deferred equipment revenue and the related costs of the devices are recorded as deferred charges upon shipment of the devices by the Company. The deferred charges are recognized as equipment costs when the related equipment revenue is recognized, which occurs when service is activated by the customer.

Through a third-party provider, the Company s customers may elect to participate in an extended warranty program for devices they purchase. The Company recognizes revenue on replacement devices sold to its customers under the program when the customer purchases the device.

The Company participates in the federal government s Lifeline program and is designated as an eligible telecommunications carrier in certain states in which it provides wireless services. Under this program, the Company offers discounted wireless services to qualified customers and generally receives reimbursement for a portion of the subsidized services. The Company recognizes revenue under this program only after amounts eligible for reimbursement have been determined and services have been rendered.

Sales incentives offered to customers and commissions and sales incentives offered to the Company s third-party dealers are recognized as a reduction of revenue when the related service or equipment revenue is recognized. Customers have limited rights to return devices and accessories based on time and/or usage, and customer returns of devices and accessories have historically been insignificant.

LEAP WIRELESS INTERNATIONAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Amounts billed by the Company in advance of customers wireless service periods are not reflected in accounts receivable or deferred revenue since collectability of such amounts is not reasonably assured. Deferred revenue consists primarily of cash received from customers in advance of their service period and deferred equipment revenue related to devices sold to third-party dealers, including nationwide retailers.

Universal Service Fund, E-911 and other telecommunications-related regulatory fees are assessed by various federal and state governmental agencies in connection with the services that the Company provides to its customers. The service plans the Company currently offers are all-inclusive of telecommunications and regulatory fees, in that the Company does not separately bill and collect amounts owed and remitted to government agencies from its customers. For the Company s legacy service plans, which are not all-inclusive, the Company separately bills and collects from its customers amounts owed and remitted to government agencies. Regulatory fees and telecommunications taxes separately billed and collected from the Company s customers are recorded in service revenues. Amounts owed to government agencies ar