

FINAL TRANSCRIPT

Thomson StreetEventsSM

LEAP - Q1 2007 Leap Wireless International Earnings Conference Call

Event Date/Time: May. 08. 2007 / 5:00PM ET

May. 08. 2007 / 5:00PM, LEAP - Q1 2007 Leap Wireless International Earnings Conference Call

CORPORATE PARTICIPANTS

Jeanie Herbert

Leap Wireless International - Director of Corporate Communications, Investor Relations

Doug Hutcheson

Leap Wireless International - President, CEO

Amin Khalifa

Leap Wireless International - VP, CFO

Glenn Umetsu

Leap Wireless International - EVP of Engineering and Technical Operations

Al Moschner

Leap Wireless International - EVP of Sales and Marketing

CONFERENCE CALL PARTICIPANTS

Romeo Reyes

Jefferies & Co. - Analyst

Tom Lee

JPMorgan - Analyst

Phil Cusick

Bear Stearns - Analyst

Michael Rollins

Citigroup - Analyst

Richard Grobman

Prudential Securities - Analyst

Chris Larsen

Credit Suisse - Analyst

Ric Prentiss

Raymond James - Analyst

David Barden

Banc of America Securities - Analyst

Jonathan Atkins

RBC Capital Markets - Analyst

Todd Rethemeier

Soleil Securities - Analyst

Ana Goshko

Banc of America Securities - Analyst

PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Q1 2007 Leap Wireless earnings conference call. My name is Antoine, and I'll be operator for today. At this time, all participants are in listen only mode. We will conduct a question-and-answer session towards the end of this conference. (OPERATOR INSTRUCTIONS) As a reminder this conference is being recorded for replay purposes.

May. 08. 2007 / 5:00PM, LEAP - Q1 2007 Leap Wireless International Earnings Conference Call

I would now like to turn the call over to Jeanie Herbert, Director of Corporate Communications and Investor Relations. Please proceed ma'am.

Jeanie Herbert - *Leap Wireless International - Director of Corporate Communications, Investor Relations*

Thank you, Antoine. Good afternoon and welcome to Leap's first quarter 2007 conference call. This call is being recorded and will be available for play back in the U.S. through the close of business May 15th by calling 1-888-286-8010. Callers from outside of the U.S. need to dial 1-617-801-6888. The pass code for both calls is 92308264. The conference call is also being webcast live and will be available for replay on the Investor Relations section of our website at www.leapwireless.com through May 25th.

Joining me on the call today to discuss our first quarter results, are Doug Hutcheson, our President and Chief Financial Officer, and Amin Khalifa, our Vice President and Chief Financial Officer. Following our prepared remarks Antoine will come back online with instructions for the question and answer portion of the call. Albin Moschner, our Executive Vice President of Sales and Marketing, and Glenn Umetsu, our Executive Vice President of Engineering and Technical Operations, will join Doug and Amin for the question-and-answer session. As used in today's conference call, existing markets refers to the Company's operations, markets in operation as of 12/31/05. New markets refer to those markets launched or acquired after 12/31/05 but does not include any Auction 66 markets.

During our call today we will discuss some nonGAAP financial measure. For a GAAP reconciliation of nonGAAP financial measures please see the financial reports page of the Investor Relations section of the Leap Wireless website at www.leapwireless.com. Statements made today are not historical in nature including statements about future events, and performance and statements, including words like expect, plan, intend and similar terms are forward looking statements. Our actual results could differ materially from those stated or implied by such forward looking statements. Factors that could cause actual results to differ from our forward looking statements are detailed in the section entitled "risk factors" included in our annual report on Form 10K for year ended December 31st, 2006, and in our other publicly filed reports, including our Form 10Q for the quarter ended March 31st, 2007, which we plan to file shortly. With that, I would now like to turn the call over to Doug.

Doug Hutcheson - *Leap Wireless International - President, CEO*

Thank you for joining us this afternoon. As we review our first quarter results, I think the performance is even more striking when put in context of our overall strategic efforts. During 2006, we successfully executed a series of key initiatives that had placed the business on a solid footing for our future. This year will be one of optimization as we continue broadening our capabilities and leveraging competitive differentiation to build an even a stronger enterprise. Initial Auction 66 launch activity is well under way. And looking ahead to 2008 and beyond, we anticipate further growth as we continue to expand into new markets that reflect the characteristics of our better performing existing markets.

Let me highlight some first quarter results that demonstrate our progress. We continue to see accelerating customer growth with 318,000 net customers added in the quarter, nearly tripled the prior year quarter. We had a record ARPU \$45.52, up 9% over the prior year quarter. And, we continue to build attractive financial results, as demonstrated by 97 million in existing market adjusted OIBDA for the quarter, a 39% margin on existing market service revenues and 81 million in total adjusted OIBDA which we achieved even as we absorbed the cost associated with the accelerated growth across our business. Through a persistent focus on providing value in our service plans, offering attractive handset options and developing networks with data capabilities, we believe we're improving our business.

For example, we recently brought unlimited messaging to all of our service plans, further differentiating our value proposition. In addition, as a result of a substantial increase in the number of Cricket branded doors, focused exclusively on selling our products, now more than 900 in total, we have 2/3 of our sales generated through our direct and premiere dealer distribution channels. We believe that these advantages will continue to deliver results in the coming years, as a competitive landscape evolves. Following our launch of several new markets in the next few weeks, we will have successfully doubled the size of our

May. 08. 2007 / 5:00PM, LEAP - Q1 2007 Leap Wireless International Earnings Conference Call

covered footprint in just a year-- over a year and a half. We accomplished this through the implementation of a market cluster strategy which will have affected over 60% of our footprint by mid-year. Our market cluster strategy and business investments are delivering results in both new and existing markets. In our new markets we're generating 4% to 5% average customer penetration in the first year, and on average, reaching OIBDA breakeven well within the first year of operations.

Additionally, our creation of market clusters is improving our existing business performance. Many existing markets when joined in market clusters, now more closely share the characteristics of our better performing markets, which have achieved double-digit customer penetration. Through the second half of this year, and into next year, we expect to continue improving our network footprints in certain markets, which we anticipate will further enhance the success of our market clusters. Auction 66, Leap, and its joint venture partner purchased 110 million new license pumps. In addition to overlaying our existing markets, with an additional 10 megahertz of spectrum. The Company now has spectrum in 35 of the top 50 markets, the highest number of any facility-based carrier in the unlimited space.

The characteristics of Auction 66 markets reflect our better performing existing markets, including, first, an appropriate footprint on either on a stand alone basis or in conjunction when the market cluster. Second, an ethnically diverse potential customer base. And third, attractive employment prospects. We estimate that our spectrum portfolio includes up to, approximately 85 million incremental covered POPs and market suitable for our service.

With respect to our network platform, we design our networks to deliver our unlimited value proposition to provide our customers with leading data services, and to be built on a cost effective and timely basis. We continue to deliver industry leading drop call rates of less than one per 100 calls where we provide service and we rate in the top two networks on overall call quality, in 70% of the markets we provide service as tested by third parties. Meanwhile, we've successfully prepared the business to increase customer data services uptake through our planned launch of DVDL in the second half of this year. We believe our new markets will also have attractive population density, which bodes well for us as we launch additional markets and move our average density from about 600 to about 700 POPs per covered square mile. With our launch of 20 million covered POPs in 2006, we have demonstrated a track record of delivering timely, well executed market launches, while maintaining industry leading build out costs for construction of fully data capable networks.

As I look ahead, this year's work agenda is one of the most interesting and promising in the Company's history. The opportunity is to both optimize the business that's nearly doubled in size over the past several quarters, and lay the foundation for additional market launchers that are expected to begin in earnest next year.

This year's agenda is principally focussed in four key areas. First, continued evolution of our data and handset offerings, particularly as we introduce additional data services. Second, integrating new market launches and optimizing network coverage to provide better customer value. Third, capturing skill efficiency through improved systems and better cost management opportunities. And, lastly, further developing our people. Allowing them not only to thrive in the current roles, but to be catalyst for subsequent Company success. Through the steps we expect to achieve continuing customer growth and strengthening financial performance in the coming quarters and years. During today's call Amin will discuss our financial results. I will return to discuss our customer activity, marketing programs, and an update on our 2007 expectations. Now, I'd like to turn the call over to Amin.

Amin Khalifa - *Leap Wireless International - VP, CFO*

Thank you, Doug. First quarter results reflect continued momentum, created by the launch of 20 million new POPs last year, along with our efforts to drive further penetration in our existing markets. First quarter revenues were \$389 million up 46% driven by a 51% increase in service revenues, compared to the same quarter last year. These increases were driven by two key factors. First, a 39% increase in weighted average customers, from new market launches and existing market improvements. Second, a \$3.65 increase in ARPU, due to strong uptake of our higher end service plans and our return to pay in advance billing for new customers. Equipment revenues for the quarter increased 23% or \$12 million compared to the same quarter last year.

May. 08. 2007 / 5:00PM, LEAP - Q1 2007 Leap Wireless International Earnings Conference Call

A 94% increase in handsets sold was largely offset by the elimination of activation fees, for new customers, purchasing equipment, and changes in channel mix, associated with the expansion of the number of premiere dealers.

Cost of equipment for the quarter increased by \$54 million over the first quarter of 2006, due to increase in handsets sold. Equipment costs for the quarter included approximately \$10 million attributable to customer handset upgrades. Cost of service and sales and marketing expenses in the aggregate increased by 4% as a percentage of service revenues over the first quarter 2006, due primarily to costs associated with the recent launches of 20 million covered POPs. General and administrative expenses excluding stock-based compensation expense decreased from 21% to 17% of service revenues due to the benefits of skill from our new markets and increasing revenues. We believe that further benefits of skill should evolve throughout the year as the business expands. Stock-based compensation expense was \$8.7 million first quarter of 2007, compared to \$4.7 million for the first quarter of last year, reflecting an increase in the number of stock and option grants.

We delivered \$81 million of adjusted OIBDA up from \$59 million in the fourth quarter reflecting expected improvements as we expanded our business. Adjusted OIBDA for the existing markets was \$97 million, an increase of 16% compared to the prior year quarter, when adjusted for the sale of our Toledo and Sandusky, Ohio markets, in 2006. This increase demonstrates the continued improvements we are seeing from increased customers and the enhancements we have made to the business. As we expected, the second half of 2006 reflected the maximum, negative OIBDA effect associated with our recent launch of 20 million POPs. The OIBDA impact from new markets in the first quarter was a negative \$16 million, an improvement from negative \$33 million in the fourth quarter of 2006.

In the past, when we reported adjusted OIBDA, we generally allocated overhead costs to existing markets. This quarter, we adopted a revised allocation method that distributes corporate and regional level overhead costs to both existing and new markets based on gross additions and weighted average customers, by market. Operating income was \$4.4 million for the quarter compared to \$19.9 million for the first quarter of 2006 and an operating loss \$9.5 million for the fourth quarter of 2006. The decrease in operating income from the prior year quarter reflects in part the impact of an increase in depreciation expense associated with our new market launches. The Company incurred a net loss \$8.1 million compared to a net income \$17.7 million for the corresponding quarter of the prior year, reflecting the impact of additional depreciation and interest expense associated with the new market expansion and financing activities initiated in 2006.

Compared to the fourth quarter of 2006, the net loss -- I'm sorry, compared to fourth quarter 2006 net loss of \$39.4 million improved by \$31.3 million. Capital expenditures were \$131.7 million the first quarter, primarily due to continued build out of our new markets. Implementation of data network upgrades for EV-DO and ongoing investments associated with operating our business. As to our key operating metrics in the first quarter we continued to see customer migration to our \$45.00 and higher service plans, which now include over 2/3 of our new and existing customers.

As we look ahead, we expect continued growth in ARPU with the launch of our new \$55.00 and \$60.00 service plans. We anticipate our newly announced service plans will lead to additional market penetration as we meet our customers' expectations. We have designed our \$55 and \$60 plans to balance customer use of off network calling with our roaming costs. Based on the anticipated uptake of these new service plans we expect second quarter ARPU to be around \$46.00. Our customer acquisition expenses in the first quarter were in line with expectations with CPGA at \$166. As we move into the second quarter of 2007, we expect CPGA to be around \$180, reflecting the normal seasonal ribbons of our business and launch of the new markets during the quarter. We achieved a cash cost per user or CCU of \$21.16 for the first quarter, which included \$1.59 in operating costs associated with new market development. On the year-over-year basis CCU in our existing markets increased by \$0.43 as we provided significantly more services to our customers that led to the increase of nearly \$3.65 in ARPU.

We've continued to expect our CCU in coming quarters to benefit from the advantages of scale from newly launched markets and implementation of new technologies, offset by the cost associated with the increased customer use of roaming and other value added services. We expect CCU to be around \$21 for the second quarter of 2007. Calculated contribution per user a measure of subscriber economics that demonstrates the net margin we realized per customer each month was \$18.64, including \$1.96 of negative impact, from the new market launches. Our performance on this measure improved by approximately \$0.59

May. 08. 2007 / 5:00PM, LEAP - Q1 2007 Leap Wireless International Earnings Conference Call

the first quarter of last year, even as we supported the cost associated with the expanding and optimizing the Company's footprints. Our existing market CCPU was \$20.60, an improvement of \$2.02 from the prior year quarter.

In the quarter we made progress with our networks and systems preparing for the future. First we continued to make good progress in designing our Auction 66 markets. We are coordinating with government agencies on the release of special clearing data. Now, expected in late summer, which will allow us to finalize our design plan. Second we have received assurances from chip set infrastructure and handset manufacturers that they will be ready to deliver products to allow a timely roll out of AWS services in the near future. And, third, we are continuing to invest in improved reporting, accounting, and billing and activation systems. Our existing billing vendors new product development has been substantially behind schedule. We are reviewing alternatives to address this issue in a timely manner that limits any impact on our growth.

As we said before we currently expect capital expenditures for the Auction 66 markets to be \$28 or less per covered POP through OIBDA breakeven including the cost of having a state-of-the-art [EVVO Rev A] network. Prior to launch our capital expenditures on new markets have been averaging less than \$18 per covered POP and should be similar on the Auction 66 markets. As of March 31, 2007, total unrestricted cash, cash equivalents short term investments exceeded \$329 million. From the fourth quarter of 2006, these amounts decreased by \$112 million, due primarily to the capital expenditures and the expected changes in working capital associated with fourth quarter market launches.

On the financing front, we may raise significant additional capital over time as market conditions permit. To enable us to take advantage of business expansion opportunities. Overall we are in good shape to deliver another strong year, as we position ourselves to double the size of our business in the coming years. I would, now, like to turn the call back over to Doug.

Doug Hutcheson - *Leap Wireless International - President, CEO*

Thank you, Amin. Not only have the new market launches paved the way for acceleration in our total customer additions, but we've also seen improvements in our existing business growth as well. In the first quarter over 318,000 net new customers selected our services, 191% increase over the 109,000 added in the first quarter of 2006, after adjusting for sale of Toledo and Sandusky, Ohio markets. Net customer additions in the first quarter from the launch of approximately 20 million new POPs in 2006, totaled approximately 216,000. The existing markets added 102,000 net new customers in the first quarter, a 27% increase over the previous year after adjusting for sale of Toledo and Sandusky. The results reflected both sequential and year-over-year improvements in customer growth. We believe the business has, thus far, absorbed any significant affects associated with financial pressure on subprime (inaudible) that has been in the news lately.

As we look to the second quarter of 2007, we expect to see net customer additions of 125,000 to 175,000 reflecting our normal seasonal rhythms. Churn for the first quarter was 3.4%, up 0.1 percentage points from the same period last year. Churn increased year-over-year as anticipated due to the strong increase in new customers, who typically demonstrate higher churn early in their life cycle. We've also seen an increase in customers who terminate service and, then, start a new line of service to obtain an upgraded handset. These upward pressures on churns were offset by a broad range of churn reduction programs we previously discussed, including the return to pay in advance billing and our efforts to better meet the needs of our customers.

The effect of customer tenure and handset upgrades deserves additional discussion. Regarding our customer tenure, the longer customers have been with us, the less likely they are to churn. As a result of our recently -- recent accelerating customer growth, we estimate that our average customer tenure has decreased by three months, a reduction of close to 25%. This glowing number of new customers creates upward pressure on churn which we expect will continue for the next several quarters. In addition as we introduce new handset models more customers replace their existing handset many seek handset upgrades. Some upgrade their handsets by simply purchasing a new handset and continuing their existing account. Other customers purchase a new handset, start a new account, and then allow their old account to lapse. These customers received the first month of new service for free, but experienced the inconvenience of getting a new phone number and are included in our churn calculations.

May. 08. 2007 / 5:00PM, LEAP - Q1 2007 Leap Wireless International Earnings Conference Call

In either case, these customers who choose to remain with us when they upgrade, their handsets represent a positive net value for our business.

With that background, the first quarter results and the second quarter forecast become easier to understand and reflect the progress we're making on churn in total. In the first quarter customers who upgraded their phones by terminating their existing service and starting a new line accounted for 0.6% of our 3.4% churn for the quarter. If we adjust for the relative increase in customers who are upgrading handsets by this method, churn for the first quarter of 2007 would have been down, approximately, 0.3% from churn in the first quarter of 2006. Our churn performance, when taken in context underscores the progress we have made and the success our churn rate reduction efforts are achieving. We expect churn for the second quarter of 2007, to be between 4.1% and 4.4%. An increase of, roughly, 0.5% over last year's second quarter results. We believe that the bulk, if not all of this projected increase, will reflect year-over-year changes in customer handset upgrade activity.

We continue to enhance our service plans in November 2006, with a more substantial update in early April of this year. With the addition of unlimited WAP into our plans in November we have exceeded the industry average web penetration of 10% in only five months. Also, in November, the Company began trialing several bundled roaming products. Based on the trial results in April, the Company introduced roaming in two enhanced serve plans to better meet the needs of our customers. We've seen attractive uptake of these plans by new customers as well as strong migration by existing customers.

The most recent addition to our service plan is a new form of service payment called Cricket by Week. Initially, this service has been introduced to provide an easier transition for customers who have a reduced ability to pay for a full month of service, which tends to increase in the middle of the year, as our business follows it's normal seasonal rhythms. In terms of distribution over the past 18 months, we've completed the introduction and roll-out of a branded presence with more than 900 locations. This dramatic distribution shift, the bulk of which is predominantly behind us, has been a catalyst for improved growth in our existing business, and our attention will, now, be shifted towards optimizing our branded distribution network.

The Company has provided an adjusted OIBDA outlook for the second quarter and has updated it's outlook for the full year 2007. We expect second quarter adjusted OIBDA will between 105 and 115 million. Reflecting growth in our existing markets and results at or near OIBDA breakeven for the new markets in the aggregate. Adjusted OIBDA for 2007 is expected to be between 400 and 470 million. This outlook does not include any significant expenses associated with the Auction 66 market launch activity and may be updated when increased visibility becomes available. 2007 capital expenditure guidance for the nonAuction 66 markets is unchanged at 280 to 320 million. We expect this year's Auction 66 capital expenditures will be about 110 million and may change as the government provides additional spectrum clearing information.

In all, we're building a business that is delivering what we believe is the best value in wireless with a spectrum portfolio that includes some of the best markets in the country. We believe we're positioned for sustained growth through 2007 and beyond. I want to express appreciation to the employees, partners and suppliers that have helped us achieve the progress we had made thus far and expect to make in the future. We look forward to updating you on our business at--on our next quarterly conference call. We also plan to cover our business in more detail at our analyst day, which will be held Wednesday, June 13th in San Diego. Please put June 13th on your calendar and plan to attend. I will now turn the call over to our conference call host, Antoine. Would you please come back on the line to review the instructions and open the call for Q&A?

QUESTIONS AND ANSWERS

Operator

(OPERATOR INSTRUCTIONS) Your first question comes from the line of Romeo Reyes with Jefferies. Please proceed.

May. 08. 2007 / 5:00PM, LEAP - Q1 2007 Leap Wireless International Earnings Conference Call

Romeo Reyes - Jefferies & Co. - Analyst

Hello. What happened to Glenn?

Glenn Umetsu - Leap Wireless International - EVP of Engineering and Technical Operations

Hello, Romeo.

Romeo Reyes - Jefferies & Co. - Analyst

Hi, how are you? Two quick questions first on the (inaudible) you mentioned Amin that is was going to be around \$21. I figured that, Amin, it would -- you'd start to see some operating leverage? I mean, are you being conservative on that front? And then second a question for Doug, on the 85 million incremental POP I guess you talked about 24 million being funded and then Amin talked on the last call, potentially adding another 25 million. Are you trying to -- are you sort of saying right now, that incrementally you'd be adding around 35 million in the through (inaudible) program? Thanks.

Amin Khalifa - Leap Wireless International - VP, CFO

Let me take that first part of that question, Romeo. CCU, we are seeing some operating leverage, certainly. The other impact that we're seeing, though, is that we have-- our higher CPGA is, also calling for some services that include -- include these roaming plans. And so our CCU is being counter balanced with that. So we're getting economies of scale on the one hand, and on the other hand, we do have some added expenses because of some of the new features that we've added to our plans.

Romeo Reyes - Jefferies & Co. - Analyst

What sort of-- ?

Doug Hutcheson - Leap Wireless International - President, CEO

So we expect on CCU we will see over time, some leverage on that. But remember, we have guided regularly that where we're really focused is on the GAAP between ARPU and CCU. And we expect as we drive more value at our customers that we will see some cost increase in CCU to go along with that value. And, then, the total Cricket-type markets and what we purchase, is about 85 million. I think that the Company is suggested that there may be upwards of 50 million that we would look at, and we would look to think between affiliates and other opportunities what might be available to do with some of the other markets. So, we are -- haven't made a decision what we're going to do on the incremental 25 million plus on our portfolio or the affiliate program, but we are thinking our way through that, and would expect on a timely basis to have further information available on that.

Romeo Reyes - Jefferies & Co. - Analyst

Okay. As a quick follow up, on the plans with roaming, there are price sets, little over \$50. What sort of penetration of the base do you think that those plans can achieve?

Doug Hutcheson - Leap Wireless International - President, CEO

Well, we don't normally announce individual plan penetration. And what we also see, when we initially launch new plans, is we see a fair chunk of initial uptake on those and it takes a quarter or two for the demand to stabilize. What we'll do is, as we get a little bit further into the roll out we'll give you a little bit more information on that.

May. 08. 2007 / 5:00PM, LEAP - Q1 2007 Leap Wireless International Earnings Conference Call

Romeo Reyes - *Jefferies & Co. - Analyst*

Thanks, Doug. Take care.

Doug Hutcheson - *Leap Wireless International - President, CEO*

Thanks, Romeo.

Operator

Your next question comes from the line of Tom Lee with JPMorgan. Please proceed.

Tom Lee - *JPMorgan - Analyst*

Hi, guys.

Doug Hutcheson - *Leap Wireless International - President, CEO*

Hey, Tom.

Amin Khalifa - *Leap Wireless International - VP, CFO*

Hello, there.

Tom Lee - *JPMorgan - Analyst*

I have a couple questions, just related to clarification. Because I think you guys gave some very, very interesting statistics in your commentary. The first thing is, I was really surprised at the POP density you guys mentioned, that of around 600 people per square mile. Because that implies that at your 50 million POPs today is a network of around 83,000 square miles. The question I have is really sort of thinking about your Auction 66 build and also, how these incremental markets look. I'm assuming that if you're averaging 600 people per square mile today, that the 20 million POPs that you launched in last year really pulled that number up. So I'm hoping you can tell us how many square miles you built, on your posted of the five markets to get the 20 million POPs coverage? And then, as you guys talk about your AWS build I wasn't sure if I heard it correctly, that you're -- that these new markets have 700 people per square mile? Or is it going to pull up your average to 700 people per square mile? Actually I'll start with it, because I actually have a follow up related to that density question.

Doug Hutcheson - *Leap Wireless International - President, CEO*

Well, first off, we have seen that that was the power-- you're asking a question around the power of our market cluster strategy that we've been trying to work through. And what we have been able to do is improve over time the efficiency of our footprints, due to the market clusters. And we don't have a specific number on the difference pre and post Auction 58. But we'll take that for the analyst day and we'll come back with additional data.

The second part is, the additional build is expected to increase that number, from in total, so you have the averaging of the new build on top of the 600. So the new build will be up closer to 800, that means the major urban areas will be well up into the mid-- between 1,000 and 2,000. And then we'll have adjacent builds that kind of dilute that back down. But I think the new

May. 08. 2007 / 5:00PM, LEAP - Q1 2007 Leap Wireless International Earnings Conference Call

markets combined with the market cluster have done a nice job of strengthening our footprints and we're going to continue to work on those.

Tom Lee - *JPMorgan - Analyst*

Okay.

Amin Khalifa - *Leap Wireless International - VP, CFO*

Is that--

Tom Lee - *JPMorgan - Analyst*

That's very helpful. And-- but if I could I follow up? As I'm thinking and I was listening to you guys sort of talk about the market expansion plan, and clearly you guys have had excellent execution to date. There were two things that are kind of striking me. One is that I think that there's a chance that these incremental markets you enter may already-- may have a metro or a unlimited like competitor already. I guess that's somewhat offset by the much, much higher density.

And then the second piece, I'm just curious about, is, in the case where you had some boost on limited launch, have you seen any effect on market-- on your own market share or what the effect on markets been with a competitor in the marketplace? Thanks.

Doug Hutcheson - *Leap Wireless International - President, CEO*

Yes, sure. Well first off, I want to start one unlimited player versus another. We've had unlimited players that we've been up against since 2000. So-- and have had the results that we posted over the entire Company's history has had unlimited players in there. And the second part is I don't know what market somebody else will or won't launch. So I can't speak for any other carriers. But I would expect that if you're talking to one company or another specifically, that there is probably some overlap, but not a significant amount. So, we'll see. The Company has spent most of it's history competing against unlimited plans and the results that we have displayed and continue to display have those affects included in them.

The last piece on boost is, it's probably a little premature. I think we've seen some interesting approaches and awareness, creating awareness right now, and some beginnings of trying to look at it. And we'll watch that unfold. I think our experience is that takes several quarters to work its way through. And so I would encourage everybody to just let that work its way through over the next several quarters and we'll see where we are.

Tom Lee - *JPMorgan - Analyst*

Great. Thank you, guys.

Doug Hutcheson - *Leap Wireless International - President, CEO*

Thanks, Tom.

Operator

Your next question comes from the line of Phil Cusick with Bear Stearns. Please proceed sir.

May. 08. 2007 / 5:00PM, LEAP - Q1 2007 Leap Wireless International Earnings Conference Call

Phil Cusick - *Bear Stearns - Analyst*

Hi guys, how are you doing?

Doug Hutcheson - *Leap Wireless International - President, CEO*

Good Phil, how are you?

Phil Cusick - *Bear Stearns - Analyst*

Good, thank you for taking my call. Wonder if we could talk through this upgrade issue some more? One in terms of, again go through the impact year-to-year on churn? And, two, what percent of customers are upgrading their phones already on a sort of annual or a quarterly basis? Or even monthly basis to help us get an idea of what's really going on in this business? And I think that that's one thing that you and another company have talked a lot about and it just seems like a lot of puts and takes there.

Doug Hutcheson - *Leap Wireless International - President, CEO*

Sure. Well, let's start with the year-over-year comparison. In the first quarter of 2006, we had-- of the one type of churn we're talking, which is customers choose to upgrade their handset by buying a new handset and changing their number.

Phil Cusick - *Bear Stearns - Analyst*

Right.

Doug Hutcheson - *Leap Wireless International - President, CEO*

That was about 0.2% of our churn. And because we have a pretty good idea who our customers are, we can post, process that, it takes -- you got to look back about 60, 90 days before you can figure that out. But we can post process and sort that through. That 0.2% compared to the same number in first quarter was about 0.6%. So the year-over-year it went up 0.4%. Now, if you listen over to what we've said over the last year, we've said the return to [PIA] would increase the effect of customers upgrading handsets and that's been something that we have believed is good, because if they upgrade their handsets with you, that means they didn't go to somebody else to upgrade the handset. They're making a decision to stay with you and be a customer, with you longer.

What we see is, in our case, we see that the most upgrades appeared, happened at the periods of the highest customer liquidity, when they have the most money. And we see that typically occurring in the first quarter, as an example so we'll see-- first and early second quarter, we'll see most of our upgrade activity. As a result of that, we will see a little higher upgrade activity, even in the second quarter, and then we anticipate that that will relax its way back down out of the system. So, the core churn programs that we have, which affect customers' ability to pay, the products and services that we offer, and handset upgrades all have programs that we are in place on them. We feel like they're working pretty well. And have decided as we've been telling people that we're going to let the upgrade pressure-- we're going to absorb the upgrade pressure in the near term because we think it's good for the business.

May. 08. 2007 / 5:00PM, LEAP - Q1 2007 Leap Wireless International Earnings Conference Call

Phil Cusick - *Bear Stearns - Analyst*

Now, in -- but what about customers who actually go through the sort of standard system, which is walk in the store, keep your same number and buy a new handset? What percent--?

Doug Hutcheson - *Leap Wireless International - President, CEO*

I never remember the way we call this on the 10Q and I want to apologize. But we actually break out those costs in -- they give you idea the cost associated. In that case, to the degree there's any cost, it's -- and maybe we can get back to you, there's -- in our CCU--

Phil Cusick - *Bear Stearns - Analyst*

Yes.

Doug Hutcheson - *Leap Wireless International - President, CEO*

We carry those costs as customers that -- we'll get you the-- I don't remember the labelling that we use on it, but we include those costs as a monthly recurring cost.

Phil Cusick - *Bear Stearns - Analyst*

Yes--

Doug Hutcheson - *Leap Wireless International - President, CEO*

Associated with the upgrade.

Phil Cusick - *Bear Stearns - Analyst*

You've given us those warranty and repair costs for a couple of years but never the percentage of customers. Okay. And then in -- beyond that, I wonder if you could talk about the new roaming plans? Seems like we talked maybe a year ago when you first introduced the roaming plans and it certainly has worked out pretty well, I think. As we go forward, are there step downs in the rate that you pay your roaming partners based on volumes? Is that come down over time? How should we think about that?

Doug Hutcheson - *Leap Wireless International - President, CEO*

Hey, Phil, one other thing. Because Amin-- Amin outlined what the cost was associated with upgrades in total.

Phil Cusick - *Bear Stearns - Analyst*

Yes.

May. 08. 2007 / 5:00PM, LEAP - Q1 2007 Leap Wireless International Earnings Conference Call

Doug Hutcheson - *Leap Wireless International - President, CEO*

There in the first quarter. And remember that number was, approximately, 10 million, \$10 million. That gives you an idea and we, that if you assume, say \$100 a handset and gives you an idea that the handsets involved are around 100,000 in the first quarter, so that might give you a little bit more ability to think about it.

Phil Cusick - *Bear Stearns - Analyst*

Yes. Okay, good. And then on the roaming side?

Doug Hutcheson - *Leap Wireless International - President, CEO*

And, the -- on our just the specific section that you would look, it's plus on our reconciliation for CCU. You would look for line item called plus net loss on equipment transactions unrelated to the initial customer acquisition which gives you those that upgrade -- gives you where those cost reside in the CCU expenses.

Phil Cusick - *Bear Stearns - Analyst*

Right. And then on the roaming side? I was asking about the rate that you pay your roaming partners?

Doug Hutcheson - *Leap Wireless International - President, CEO*

We have a variety of different roaming rates. And I think some of those contracts are flat, and some of them have some volume, and some of them actually have some escalators as we use more. And there's a lot of filings in front of the FCC, as well, on how we've seen some of the different position carriers have taken. But we do have new roaming partners that we're trying to work on and we do have policy initiatives that we're working to see if we can get, manage the roaming costs as we look ahead, so--

Phil Cusick - *Bear Stearns - Analyst*

Okay. Thanks, guys.

Doug Hutcheson - *Leap Wireless International - President, CEO*

You bet.

Operator

Your next question comes from the line of Michael Rollins with Citigroup. Please proceed.

Michael Rollins - *Citigroup - Analyst*

Hi, good afternoon.

Doug Hutcheson - *Leap Wireless International - President, CEO*

How are you, Mike?

May. 08. 2007 / 5:00PM, LEAP - Q1 2007 Leap Wireless International Earnings Conference Call

Michael Rollins - Citigroup - Analyst

Good, good. Just a couple quick questions. Your first--- I was wondering if you can give us an update on where you are with your patent litigation? Second question I had, was just on CPGA, was there a differential between the total reported and the core markets? And I guess just the last quick thing to throw in there, was you talked about, maybe in the press release, about going into the markets and trying to get some financing, if you accelerate the build out from what you've already funded, what you've already guided. And I'm wondering how you think about funding in terms of debt versus equity? And how you think about financial leverage going forward, as you consider some of the new opportunities? Thanks.

Doug Hutcheson - Leap Wireless International - President, CEO

Sure. We did not give a break out on CPGA between new and existing markets. We have seen, as the new markets become larger, that the costs on those, there's not a lot of differential. They're starting to close back together. The second part of the question was, where we're at on financing? And the Company is expecting to see substantial additional sequential quarter-over-quarter growth, which implies over time that, we're going to be delevering. So certainly we would keep that in mind when we look at different ways that we could finance the business, and be thoughtful about what the appropriate steps are to take on that. And, then, on the patent litigation, that litigation continues to progress. Those processes take time. We continue to see that -- results that we think are appropriate for where we're at and we'll continue to press forward on that.

Michael Rollins - Citigroup - Analyst

If I could just follow up, there is a Supreme Court ruling, I guess a couple weeks ago, does that affect litigation at all? And in the merits of case that you believe you have?

Doug Hutcheson - Leap Wireless International - President, CEO

It doesn't because it's not a business process patent that's involved. So at this point we don't see any impact on it.

Michael Rollins - Citigroup - Analyst

Great. Thank you very much.

Operator

Your next question comes from the line of [Richard Grobman] with Prudential. Please proceed.

Richard Grobman - Prudential Securities - Analyst

Thanks. Good afternoon. And just following up on that last question on equity versus debt, it sounded like your explanation there was that because you're growing, because your EBITDA will be growing, you're more capable of absorbing debt. So it almost sounded like your-- the shadow answer to that question was, you're leaning more towards debt than equity. Was I over reading that?

May. 08. 2007 / 5:00PM, LEAP - Q1 2007 Leap Wireless International Earnings Conference Call

Doug Hutcheson - *Leap Wireless International - President, CEO*

I think I answered what I can right now on that. Other than to say that we think we have a growing, vibrant business. We see lots of growth ahead for us. We see markets that we believe are attractive. And I think to the degree we can complete an orderly build out of those markets and continue to expand our business, we're going to look for sources of capital that are appropriate to have us continue to grow our business.

Richard Grobman - *Prudential Securities - Analyst*

Okay. And that was-- when you referred to business expansion opportunities, the -- the logic there was more covered POPs than you've already laid out in your Auction 66 plans, is that right?

Doug Hutcheson - *Leap Wireless International - President, CEO*

Yes. I mean, that's why we point it out, that we have a total of 85 million potential POPs that are available for our service. We have mentioned previously that around 24 or 25 million of those, we were funded for. And what we're saying is that we will be reviewing our next steps relative to whether or not we want to consider bringing more of those online at a sooner time period.

Richard Grobman - *Prudential Securities - Analyst*

Okay.

Doug Hutcheson - *Leap Wireless International - President, CEO*

So all we're doing-- what we are doing, not all we're doing, what we're doing is carefully working through the options to get the right outcome for the business and the different constituents that are important to us.

Richard Grobman - *Prudential Securities - Analyst*

Okay that's great. Two more quick questions if I could? One is on the CapEx, you talked about the potential for that 110 million that is AWS-related changing based on the clearing with the government. Does that mean it could be more or could be less than that number based on the clearing? And finally, could you talk a little bit about your subscriber additions, I noticed this quarter you were flat on the new markets on subscriber ads. I thought you might have a little bit of an uptick since you had a couple of markets just launched at the end of the quarter. Is there any color that you could help there? Thanks.

Doug Hutcheson - *Leap Wireless International - President, CEO*

Well, the -- boy first off, we're pretty pleased we're posting 4% or 5% penetration in the new markets in the first year. So I think, I think that the new markets are a healthy, vibrant, doing fine. There's a host of different markets involved with that. We did see sequential growth on markets versus fourth quarter.

Richard Grobman - *Prudential Securities - Analyst*

I meant the additions were, roughly, similar in first quarter versus fourth quarter on new markets. The 216 in the first?

May. 08. 2007 / 5:00PM, LEAP - Q1 2007 Leap Wireless International Earnings Conference Call

Doug Hutcheson - *Leap Wireless International - President, CEO*

AI, you want to answer that?

AI Moschner - *Leap Wireless International - EVP of Sales and Marketing*

Yes. Let me take that. If you compare fourth quarter with the first quarter, last quarter we reported 262,000 total customer additions, 80,000 or so from the core, 160 -- I'm sorry 182,000 from the Auction 58 markets, that grew to 216,000 in Auction 58 in the first quarter, and just a little over 100,000 in the core.

Richard Grobman - *Prudential Securities - Analyst*

Okay thanks. That's helpful. I had that mixed up.

Doug Hutcheson - *Leap Wireless International - President, CEO*

And then back on your CapEx, as we learn more information, I think it's appropriate to say at this point we'll fine tune our plans for how we go to market on the Auction 66 plans. And while we would like -- we are trying to keep focus on the government delivering the information late in the summer, so that we can fine tune that number, we are making -- we are making sure that when we find out information, if we can move briskly we will, or if not we'll slow down and we'll wait til we get the right answer.

Richard Grobman - *Prudential Securities - Analyst*

So that 110 has-- ?

Doug Hutcheson - *Leap Wireless International - President, CEO*

I think what we're trying to point out, also on that, is there is some uncertainty in the response from the government as well and we're just trying to work our way through things.

Richard Grobman - *Prudential Securities - Analyst*

Okay. So, in other words, that 110 could be sped up and, therefore, higher or slowed down, and therefore pushed into '08, is that right?

AI Moschner - *Leap Wireless International - EVP of Sales and Marketing*

Yes.

Richard Grobman - *Prudential Securities - Analyst*

Okay thanks. Sorry, sorry for all the--

Doug Hutcheson - *Leap Wireless International - President, CEO*

Hang on.

May. 08. 2007 / 5:00PM, LEAP - Q1 2007 Leap Wireless International Earnings Conference Call

Richard Grobman - Prudential Securities - Analyst

-- the questions.

Al Moschner - Leap Wireless International - EVP of Sales and Marketing

Richard let me step back in. I misspoke, I got myself confused with the first quarter of '06, with the fourth quarter '06. The actual numbers, fourth quarter '06 to first quarter '07 in the core went from 50,000 to 101,000. In the launch Auction 58 markets, fourth quarter '06 went from 212 to 216.

Richard Grobman - Prudential Securities - Analyst

Right. That's what I had and that's what I was confused about why it looked like that was essentially flat from fourth to first and I was curious because I thought you launched a couple of big markets in December and, therefore that would have been some sequential growth and the additions coming in those new markets.

Al Moschner - Leap Wireless International - EVP of Sales and Marketing

Well, you're absolutely correct. I mean, we did launch a number of markets at the end of the quarter. And as you know, we get a very significant POP when we first launch a market. And, so, we saw some of that effect in the first quarter and as we went into the first quarter that was a bit diminished but still very strong. And the numbers just worked out to be pretty flat quarter sequentially.

Amin Khalifa - Leap Wireless International - VP, CFO

You have to also remember, that fourth quarter enjoyed quite a bit of strength from launches that occurred in the third quarter.

Al Moschner - Leap Wireless International - EVP of Sales and Marketing

The end of the third quarter, and as well, correct.

Richard Grobman - Prudential Securities - Analyst

Okay thanks a lot. Sorry again for the multi-part.

Amin Khalifa - Leap Wireless International - VP, CFO

Not a problem. Sorry for the initial error.

Operator

Your next question from the line of Chris Larsen with Credit Suisse. Please proceed, sir.

May. 08. 2007 / 5:00PM, LEAP - Q1 2007 Leap Wireless International Earnings Conference Call

Chris Larsen - *Credit Suisse - Analyst*

Thank you and good afternoon. And thanks for taking my questions.

Amin Khalifa - *Leap Wireless International - VP, CFO*

Hi there.

Doug Hutcheson - *Leap Wireless International - President, CEO*

Thanks Chris, what's up?

Chris Larsen - *Credit Suisse - Analyst*

Yes, Doug, when you talked about you were going to expand the 50 million POP that you're looking at and you also talked about getting these double-digit penetrations when you cluster markets together. Can you give us a sense for how many markets or how much of your existing foot point, and by existing I don't mean prior to '05, I mean just what you've got built today, do you think you can go back to cluster? And really trying to think about terminal penetration here where ultimately do you go? And then would actually ask an easier question. I'm guessing I'm going to get a no answer, but, historically, 2Q, 3Q, in the core markets don't add a whole lot of customers, the guidance that you're giving for the second quarter, are you expecting much out of those core markets? They seem to do a lot more in the first quarter that I would have expected them.

Doug Hutcheson - *Leap Wireless International - President, CEO*

Sure. So, the point we had been trying to make, is to the first part of your question, is market clusters, 60% of our footprint as been affected by market clusters. Market clusters have been trying to take that existing business and either on its own or when combined with the new market, improve the characteristics of the markets so that it would more closely resemble our better performing markets, which have double-digit performance. So a lot of the answer to your question is embedded in that answer. We do see markets that we have that do double-digit penetration, we do know why they do that, and we are taking steps to continue to improve our business to generate more potential on that. We have attracted POP densities, we've got attractive footprints we're building. We have a whole host of different things.

And we see for the third year in a row, accelerating growth in those existing businesses. Not only on the ARPU line but actually on the customer lines. So the indications are from our perspective that we're headed in the right direction. So I think more to be had on that, more opportunity ahead for us. On the -- I'll let AI answer on the Q2 core market additions.

AI Moschner - *Leap Wireless International - EVP of Sales and Marketing*

Chris, you're absolutely correct. I mean there is clearly a seasonality in our business, we talk about that in our calls all of the time. And, yes, you should expect the seasonality to kick in and in our both our core as well as our Auction 56 markets will be affected. Just to sort of note your comment, yes, we have seen some good growth in our existing markets. We reported last quarter that year-over-year, full year, we were up 22%. You saw that we reported 27% increase now in the first quarter of '07 versus the first quarter of '06. So, we're seeing a bit of acceleration, we talked a little bit about that in the call that the distribution that we're putting in place is helping, clearly the products that we're putting in place is helping with that penetration. And so we expect to see some improvement over time. But clearly the seasonality is going to be a major factor in our second and third quarter reporting.

May. 08. 2007 / 5:00PM, LEAP - Q1 2007 Leap Wireless International Earnings Conference Call

Chris Larsen - *Credit Suisse - Analyst*

Thanks. That's excellent. Doug, if I could push you one more time and apologize, but can we expect that you're going to look at the new markets that you're expanding and, maybe get that 60% that are clustered to a higher percentage of the overall base? Is that a fairway to think about what you-- ?

Doug Hutcheson - *Leap Wireless International - President, CEO*

It is a fairway to think about it. We are on a pretty relentless tract. We know clusters work. We know building the right footprint is the right thing to do. We are continuing to do that. It's been clear and how we've acquired spectrum and launched it and such, so there's-- we believe there's more to come.

Chris Larsen - *Credit Suisse - Analyst*

Thanks. Appreciate it.

Doug Hutcheson - *Leap Wireless International - President, CEO*

You bet. Thank you, Chris.

Operator

Your next question comes from the line Ric Prentiss with Raymond James, please proceed sir.

Ric Prentiss - *Raymond James - Analyst*

Thanks good evening everybody.

Doug Hutcheson - *Leap Wireless International - President, CEO*

Hi Ric, how are you?

Ric Prentiss - *Raymond James - Analyst*

Very well, thanks. Couple of follow up questions. I think I heard but it was pretty fast there in the beginning, did you say that the margins in the first quarter and the core markets were 39%? And if so, can you kind of tell us where you think margins could head in the core markets since they've been around a while? And I couldn't tell, did you answer Chris's question as far as where you think terminal penetration could go in the core markets?

Doug Hutcheson - *Leap Wireless International - President, CEO*

The -- so, on margins, first quarter, margin was 39%. Which is correct, I think the highest quarterly margin we've had has been about 42%. You have to go back about a year and, then remember, that we have always carried all of the nonmarket specific costs in overhead, in our overhead and we started the new allocation process and we're giving you a reconciliation you'll be able to see that in our data how that has changed. So we've had good margins on that. We expect further margin growth, particularly with the added scale that we're seeing. You'll see continued increased allocation between the two markets, just as

May. 08. 2007 / 5:00PM, LEAP - Q1 2007 Leap Wireless International Earnings Conference Call

more weighted average subs come onto the new markets in addition to a bunch of cost reduction efforts that we'll see. So, we think that there's upside in that number and are going to continue to pursue it.

As far as terminal penetration, we don't -- we haven't released that number. What we -- because we think there's a lot of programs that we'll do and we'll continue to keep you updated on that. as we work through this. And our analyst call-- our analyst day will give you a little bit more insight into that.

Ric Prentiss - *Raymond James - Analyst*

Okay and the second question has to do with spectrum. You mentioned how it's now maybe late summer for the spectrum clearing information and getting information from the government. How much spectrum do you think you need to launch a market? Do you need 10? Can you launch with five? And, then, a related spectrum question, what are your thoughts on 700 megahertz auctions?

Doug Hutcheson - *Leap Wireless International - President, CEO*

Sure. We're pretty comfortable to launch on even less than 10. We can get markets up and running with a couple of carriers. As long as we have a time line, a reasonable time line, how that spectrums going to clear. So, we certainly don't need clear spectrum. And I'll remind you, that in our case, we're running an awful lot of markets on 10 megahertz and have a clear channel that we're also bringing EV-DO services, so we're pretty efficient in how we utilize spectrum and have been pretty comfortable that we know how to get a fair amount of volume and efficiency out of it. So, what we're waiting to do is just see where we're -- where the government comes out on a few things. I will say that the end of the summer is about the same date we had when we were at CTIA. So there's not new data there. And we are actively pushing the government along in that process. It is the government. So, I don't -- I don't want to respond when they will finally resolve things. But we're working with them on it.

And then on the 700 megahertz auction, it's something certainly that we're looking at and analyzing. But we really haven't taken a position yet on what we think about that spectrum or how we're going to the auction if we go at all.

Ric Prentiss - *Raymond James - Analyst*

Okay. Great, thanks, guys.

Operator

Your next question from the line of David Barden with Banc of America. Please proceed, sir.

David Barden - *Banc of America Securities - Analyst*

Good day guys, thanks a lot. Just a couple of questions, if I could. The first one is just talk about EV-DO in the back half of the year. I guess the sense is-- two questions on data I guess. The first is on EV-DO, since it's mostly a laptop card-driven market, given where your demographics are and kind of what success you've had in data so far, could you kind of walk us through kind of what you see the incremental opportunity on EV-DO front being. Is there really a solid laptop card opportunity there or is it something else? And then with respect to relatively high percentage of subs you've got coming in, \$45 plus level, are you seeing robust usage of the incremental value services? Do you believe that the ARPU you're realizing is a sticky ARPU, and it can kind of grow from here?

I guess the second question, group of questions, would be just again on the trying to maybe talk about the terminal penetration issue a little differently. There're some companies out there that have gotten a double-digits across a very large number of

May. 08. 2007 / 5:00PM, LEAP - Q1 2007 Leap Wireless International Earnings Conference Call

markets, larger markets and I wondering, Doug, you probably have a strong view on it. Do you believe there's a reason or anything structural that prevents Leap from getting to double-digits penetration in most, if not all, of the markets that you're in? And I guess lastly, you also pointed out this reconciliation on the existing market EBITDA, just as a comment it would be helpful to have that reconciled I guess over a series of historical quarters so we could kind of incorporate the new cost accounting into our models. Thanks a lot.

Doug Hutcheson - *Leap Wireless International - President, CEO*

Okay. There's a bunch there. So let me do the easy one.

David Barden - *Banc of America Securities - Analyst*

All right.

Doug Hutcheson - *Leap Wireless International - President, CEO*

I think we'll do five quarters for the reconciliation.

David Barden - *Banc of America Securities - Analyst*

Yes.

Doug Hutcheson - *Leap Wireless International - President, CEO*

And that'll be up on the website, so I think you've got that. The terminal penetration double-digit potential, I don't -- you said, all markets, and I would not expect us or anyone would say that. What our goal is is to continue to mark the markets and the products and services that we make available allow us to grow further and that we know when we have all of those things come together that we see our markets with double-digit penetration, and we're taking steps to make all-- as many of our markets look like that as possible. We're not -- we haven't put out terminal penetration numbers. What we're doing is working our way through to get our business so that we think it has additional penetration, penetration potential available. And we're pretty pleased that we think we're making progress. I do want to point out that the new markets are four to five points in the first year. So we're seeing attractive performance there. And we see collateral benefits when we couple those with our existing business.

As far as the ARPU being sticky, or can it grow from here? I think it means that is we see upward pressure on that, as we always do. I do want to caution people that remember that some of the services that we bring online have cost directly associated with them. And while adding the next new incremental dollar of service revenue on a rate planner, are many of our data services tend towards, having upwards of \$0.70 on the dollar move down to the bottom line, some of these new services won't have that level of a attractiveness to them. And we think the best way to do is just get in and manage the cost and do what we can to achieve more subs ergo more penetration.

Then on the EV-DO it's much broader first off than any one thing. The Company will trial things to see if there's a business potential there. And I think I'd feel more comfortable to say where we're at on lap cards. However, more specifically, on some of the other EV-DO services, AI, you want to give people an update?

May. 08. 2007 / 5:00PM, LEAP - Q1 2007 Leap Wireless International Earnings Conference Call

Al Moschner - *Leap Wireless International - EVP of Sales and Marketing*

Yes. There's a handful of applications that are very conducive to unlimited kind of services that we sort of have as our hallmark. And there's three in particular, David, that we're spending a lot of time on and you should expect to see some announcements in the future. And they are music, e-mail and mobile chat. If you think about all three of those applications, they lend themselves to an unlimited environment very well. Mobile chat rooms are exploding. And obviously our unlimited services are ideal for that.

We are carefully looking at music. I don't expect us to replicate the Apple model, there's a way to complement that and there's a several applications that we're looking at there. And then e-mail is the other obvious one. As clearly what we've learned is when you bundle unlimited capability in a service plan as we have seen with the web and we reported that in five months we've exceeded the industry penetration, we expect that same phenomenon to occur with e-mail as well and so that's the third application we're looking at. And those all are enhanced when you broaden the pipe and you enable a bigger bandwidth to support it.

David Barden - *Banc of America Securities - Analyst*

Got you. Appreciate it. I do see the reconciliations up on the website now. So thank you very much.

Doug Hutcheson - *Leap Wireless International - President, CEO*

Thank you.

Operator

Your next question comes from the line of Jonathan Atkins with RBC Capital Markets. Please proceed.

Jonathan Atkins - *RBC Capital Markets - Analyst*

Yes. I wondered-- you talked a little bit around the edges, regarding the spectrum clearing process. But I wonder if you could sort of address head on where things stand, what is it specifically that you're waiting to hear in terms of clarification? And is the pace of spectrum clearing likely to vary much by markets?

Doug Hutcheson - *Leap Wireless International - President, CEO*

The pace of spectrum clearing will absolutely vary about market. There's different levels of complexity involved with that, so the answer on that one is yes. OMB released the money into the various government agencies now, about 30 days ago, is our understanding. I will say that that money, based on a recent trip I had last week to Washington D.C. can -- needs to be more briskly put in the different agencies, where it needs to land. But it seems to be moving through that process. And that is the basis that we're hopeful that we'll hear something later this summer.

So, at this point, it's one of persistence just to make sure, and then we've planned throughout that different markets would clear at different rates. Not only in post the auction, but even before we decided to go to the auction. And as we thought what markets were worth, we included that different difficulties of clearing. So it's embedded in all of our thought process to date. So, don't see anything in spectrum clearing that is troubling at this point. We'd just would like to have the information so that we can move ahead promptly. And I've been up front that I think we've been disappointed that we would like the government to have moved quicker on this, and we'll continue to apply pressure to the degree we can to cause them to move along.

May. 08. 2007 / 5:00PM, LEAP - Q1 2007 Leap Wireless International Earnings Conference Call

Jonathan Atkins - RBC Capital Markets - Analyst

And then related to that, given your spectrum position and the spectral efficiency of the technology that you're using, any thoughts on wholesale revenue streams related to spectrum, some in capacity to others?

Doug Hutcheson - Leap Wireless International - President, CEO

I think it's incumbent on us to be thoughtful about all of the things that are there. Right now, we've had a pretty good success selling more of what we do and the steps that we've taken have allowed us to both increase the number of customers and the amount of value we can deliver to each. But I'm sure that under certain circumstances that there would be conditions that we would look at that. So we'll have to-- we'll take that on board and think about it.

Jonathan Atkins - RBC Capital Markets - Analyst

Thank you.

Operator

Your next question comes from the line of Todd Rethemeier with Soleil Securities. Please proceed.

Todd Rethemeier - Soleil Securities - Analyst

Thanks, good afternoon guys.

Doug Hutcheson - Leap Wireless International - President, CEO

Hey, Todd, how are you?

Todd Rethemeier - Soleil Securities - Analyst

I'm good. Could you give us a little more color on the 4 million additional POPs that you talked about in the guidance? And then the second question, can you give us any guidance on what the tax rate might be or the stock-based comp as we try to project earnings for the rest of the year?

Doug Hutcheson - Leap Wireless International - President, CEO

I'll let Amin get a chance to stare and see if we can help you on the tax rate. The tax is always one of our more interesting subjects. The -- as far as the 4 million, it is up to 4 million. It's first-- I really want to flag that. And so, there's a few Auction 66 opportunities that we're looking at and trying to see. And there may be some enhanced footprint that we look at as well for building additional market clusters. And we expect to have more information on that as we get closer either to our analyst day or our next earnings call.

Amin Khalifa - Leap Wireless International - VP, CFO

So a couple of answers to your questions. Stock-based compensation we expect to be in the \$25 million to \$30 million range for the year. Now, our tax rate, we calculated a tax rate of about 44%, we've discussed in the past. There are, obviously, with our

May. 08. 2007 / 5:00PM, LEAP - Q1 2007 Leap Wireless International Earnings Conference Call

income being a low income position forecast for the year, there are a lot of subtleties that come into play and there could be offsets that reduces the tax rate further. So it's a really hard call to make this early in the year, but the overall tax rate would be in the 44% range.

Todd Rethemeier - *Soleil Securities - Analyst*

Okay. That's helpful. Thanks.

Doug Hutcheson - *Leap Wireless International - President, CEO*

Thanks, Todd.

Operator

Your next question comes from the line of Ana Goshko with Banc of America Securities. Please proceed, ma'am.

Ana Goshko - *Banc of America Securities - Analyst*

Hi, thank you. I'll try to make it a quick one because it's getting late. First question is on the 2006 market launches, you said there's supposed to be EBITDA positive adjusted EBITDA positive by mid-year. When do you expect those to go for cash flow positive? And then my second question is on your business as a whole, without the AWS market, coming in, how -- should we expect you to turn the corner into free cash flow positive as a whole barring any expenditures and the AWS, on a quarterly basis by year end?

Doug Hutcheson - *Leap Wireless International - President, CEO*

Well, what we have said about the total business for 2007 previously, is that we expect ourself to be approaching levered free cash flow breakeven based on our capital structure for 2007, so I think that gets at most of the elements. Now the business is -- and that was pre-Auction 66. The business is going to look carefully at all of the options and may make decisions to change some of those elements. But, that gives you an idea about how we think we're going to produce cash out of the operation, line that up with our interest costs, and our CapEx based on where we were historical and we'll again look perspective, we'll update you on any changes that we make there.

Ana Goshko - *Banc of America Securities - Analyst*

Okay. And then, a second question is, your cash balance is at a little over 300 and it looks like you're still going to be a user of cash, at least in the second quarter. And you do have a revolver, but just wanted to know what your kind of comfort level is in terms of your cash balance?

Amin Khalifa - *Leap Wireless International - VP, CFO*

Well there's a couple of things there. We certainly wanted to keep a cash balance available for use. And on top of that, we, to date, have not planned to tap into our \$200 million revolver. So, we want to have an adequate cushion at all times. But we have said that, again what Doug just said a minute ago, about being cash flow breakeven for the year, pre any Auction 66 expenses would give you some indication of what our cash flow will look like in incoming quarters.

May. 08. 2007 / 5:00PM, LEAP - Q1 2007 Leap Wireless International Earnings Conference Call

Ana Goshko - Banc of America Securities - Analyst

Okay great. Thanks very much.

Doug Hutcheson - Leap Wireless International - President, CEO

[Here] our free cash flow, so it may move is around a little bit but we're good making progress.

Ana Goshko - Banc of America Securities - Analyst

Okay, great. Thank you.

Operator

(OPERATOR INSTRUCTIONS)

Doug Hutcheson - Leap Wireless International - President, CEO

I think we're going to go ahead and wrap. So with that, thank you for joining us on our call today. I hope you leave our call with a good understanding of how we're shaping our future as we execute on the opportunities we see before us. On behalf of the employees, officers and directors of Leap we thank you for your interest and continued support. We look forward to talking to you again at our second quarter conference call. If you have any further questions about our results or need additional clarification, please feel free to contact Jeanie Herbert, Director of Corporate Communications and Investor Relations at 858-882-6084. And thank you.

Operator

Thank you for your participation in today's conference. This concludes the presentation. You may now disconnect. Good day.

DISCLAIMER

Thomson Financial reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON FINANCIAL OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2007, Thomson Financial. All Rights Reserved.