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LEAP - Q3 2007 Leap Wireless International Earnings Conference Call

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the third-quarter 2007 Leap Wireless International earnings conference call. At this time all participants are in a listen-only mode. We will be facilitating a question-and-answer session towards the end of this conference (OPERATOR INSTRUCTIONS). I would now like to turn the presentation over to your host for today's call, Mr. Jim Seines, Director of investor relations. Please proceed, sir.

Jim Seines - *Leap Wireless International, Inc. - Director, IR*

Good afternoon and welcome to Leap's third-quarter 2007 conference call. This call is being recorded and will be available for playback in the United States through close of business December 27 by calling 1-888-286-8010. Callers from outside the US will need to dial 1-617-801-6888. The pass code for both calls is 264-221703. This conference call with accompanying presentation is also being webcast live and will be available for replay on the investor relations section of our website at www.Leap Wireless.com shortly after the completion of our live call.

Joining me on the call today to discuss our third quarter results are Doug Hutcheson, our President and Chief Executive Officer and acting Chief Financial Officer; and Stefan Karnavas, our Vice President, finance and Treasurer. Following our prepared remarks Audria will come back online with instructions for the question-and-answer portion of the call. Al Moschner, our

Executive Vice President and Chief Marketing Officer; and Glenn Umetsu, our Executive Vice President and Chief Technology Officer, will join Doug and Stefan for the question-and-answer session.

The Company has restated its consolidated financial statements for fiscal years 2004, 2005 and 2006 and the first two quarters of 2007. The financial data presented during our call today includes the effects of the restated financial information for all such periods.

During our call today we will discusses some non-GAAP financial measures. For a GAAP reconciliation of non-GAAP financial measures, I would like to refer you to the notes to financial statements contained in our earnings release today and also the financial reports page of the investor relations section of Leap's website at www.LeapWireless.com.

Turning to our forward statements slide, I would like to remind you that statements made today that 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 10-K for the year ended December 31, 2006, and for the quarter ended September 30, 2007, which we plan to file tomorrow. With that, I would now like to turn the call over to Doug.

Doug Hutcheson - *Leap Wireless International, Inc. - President and CEO*

Thank you, Jim, and thanks to all of you for joining us today on our third-quarter conference call. In early 2005 we set a goal to double the size of our footprint, customers and OIBDA over the next three years. As we look where we are today, we've nearly doubled our footprint with 54 million covered POPs expected at the end of the year.

We have made great progress on doubling our customers, 38% increase in customers year over year and nearly double where we started our journey. We saw strong progress in our service revenues and the total revenues, and today's results demonstrate yet another milestone passed as we've demonstrated a year-over-year improvement in our operating income.

As a result of that, adjusted OIBDA for the business including $13.1 million of negative adjusted OIBDA associated with our major new initiatives, which we will discuss in the call, was up 87% year over year. This has not been without its challenges, and certainly some of the obstacles and challenges we've faced in the last three months have been among some of our most challenging time periods.

We observed a shift in customer buying powers. We observed weakness in some of our price-sensitive customer segments beginning in third quarter of 2007. But the steps we've taken show that we have begun to see an increase in relative year-over-year strength since Thanksgiving.

During the time period and through the summer we engaged in significant external activities, looking for appropriate alternatives that we thought would contribute to our business and allow us to continue to grow. This included an unsolicited merger proposal from Metro PCS, which is -- all of these activities have concluded. Additionally, the Company has filed to participate in Auction 73. We will provide you an update today.

We experienced a transition in financial leadership with the announcement of the departure of our CFO in early September. The Company has been engaged in an active search to find a replacement, and we expect to announce a replacement in the coming months as we complete our search.

During this time period, senior management resources have been brought in to augment our finance and accounting team. And as a result of their efforts we have completed with our filing tomorrow of our third-quarter 10-Q; what has truly been a challenging period as we have also completed our financial restatement.

Over the past several quarters the Company has strengthened substantially its accounting organization. In mid-September we initiated a review of our service revenue forecasting and subsequently accounting processes to look at where we were at and the steps we needed to take to continue to improve. The review revealed deficiencies in some of our account reconciliation, our reports, some analysis and testing of some of the changes to our revenue and billing system.

We uncovered errors in accounting related to the timing of the recognition of some of our service revenues, the recognition of some components of our service revenues, classification of service equipment revenues and some operating expenses as well as some other nonmaterial items and some income tax adjustments. The errors were neither intentional nor the result of employee misconduct, and the Company worked closely together with the audit committee and our independent auditors to correct errors.

The result of these relatively small errors accumulated over time from 2004 through the second quarter of 2007. The total was $8 million net cumulative reduction in service revenues, about 0.3% of total service revenues, and $23 million of net accumulative reduction to operating income, or about 18% over the same time period. There were no material changes in our trends on service revenue nor in our primary metrics business metrics of ARPU, CPGA and CCU. These do not have an impact on our net customers, net customer additions or churn, and the restatement did not affect compliance with our financial covenants. We expect tomorrow, with our filing of our 10-Q, that there will be additional detail available to investors.

Now, moving to an update of our third-quarter business activity, our customer additions during the quarter reflected a change in the rate of growth. Of the 451,000 gross additions was up 11% year over year but less than expected, and that change that we saw or the less-than-expected performance that we saw was distributed across most markets.

As you look at the line on the chart on the left, what you see is in the first half of the year the Company enjoyed substantial increase in gross customer additions. In our mature markets they were up between 14% and 15%, and that rate slowed to about 3% during the third quarter.

The year-over-year changes in the growth rate reflect changes, we believe, in the macroeconomic environment resulting in some changes in customer buying patterns. The maturing Auction 58 markets that have now been in operation, on average, a little over a year changes in the employment sector, which describe most of the variability that we saw between the different regions and then some changes in the competitive landscape. These changes occurred particularly at lower price points or prepaid.

In addition, the effect we saw was accentuated at the end of the third quarter. The upper chart on the left shows the rolling average gross adds over the last 14 days of the quarter, and what you see at the end of the second quarter -- we really had a quite robust end of the quarter. We had launched during the quarter new rate plans, and we aligned these with some attractive appropriate promotions, and we saw a lot of strength coming out of the second quarter.

The third quarter, both like the second and the fourth quarter, tend to be slow starters and this year proved to be no different. However, as the quarter developed, we saw some softness, as we discussed on the previous slide, but there was an expectation that we would see accelerated growth at the end of the quarter as we moved into a similar set of selling conditions and promotions we had seen during the second quarter.

As the chart on the bottom shows, those conditions did not develop, and in fact we saw a slowdown that began in mid-September and continued into the early parts of fourth quarter. This slowdown caused the resulting miss to our Q3 guidance and a revision to our -- or moderated our expectations for the fourth quarter as well.

We've seen a nice progress on gross additions post Thanksgiving, and before we talk about the steps that we expect to take, we will discuss churn and our net customer additions. Our business is not only seasonal on gross adds, it's also seasonal on churn as well. This year was not any different, as we reported 5.2% churn for the third quarter.

We have four reasons for churn, one which we don't control, which is when our customers move outside our footprint, and three key contributors that we take steps to manage. The first is our products and services, whether that's our rate plans or our features or our coverage. The second is handsets, not only the handsets we offer but the ability for our customers to upgrade, and the third is their ability to pay, and we provide programs that allow them to have a variety of different ways to pay for those.

During 2006 we relaunched [PIA] and determined that we were going to allow front-door upgrades to increase. We reduced or eliminated loyalty handset incentives for our longer-lid customers and allowed them to upgrade by buying new handsets through the front door.

During the past several quarters we have disclosed this increase in churn. But during 2006 we also experienced mitigating effects as a result of the new market launches. They exhibit very low churn in the first few months of operations, and this effect more than mitigated the upgrade effect last year.

Also, during this year and last year and also during this year during our analyst day, we disclosed we expected churn to also increase on a temporary basis as a result of lower customer tenure. As expected, temporary increase in churn related to the high growth in the new market launches.

We are pleased to report that we see the progress as we expected in this, as we watch year-over-year upgrades on this chart shown in blue begin to come down in the fourth quarter, partly as a result of an increasing [PIA] base compared to our year-over-year numbers but also as we introduced new programs such as our customer life-time value programs and other new incentives that allow us to manage and optimize the upgrade of customer handsets.

As far as tenure, the effects continue as we had expected as you see it build during Q1 and peak during Q3, and we're now progressing as we anticipated, as we see it declining now in the fourth quarter. The business is confident that this will continue to go as planned. As you look on the bar chart on the upper left, what you see is a comparison of the different tenure groups by month of service. And you see compared year over year, we see an attractive, as-expected comparison to prior years.

This data continues to correlate for our business well, and as we look at our average tenure shown on the bottom chart, we remain confident that as this continues to rise, that we will continue to see the progress into 2008 as the tenure effect mitigates. So we're on track and looking forward to next year as we move through this.

So the net customer additions reflect these market changes. The slowing that we saw, we believe this is principally due to a customer buying pattern and macroeconomic slowdown. Competition did have a minor impact on the business, but principally at lower price points, and we believe the business is well-positioned to take advantage of the evolving opportunity in the coming quarters.

We continue to have a great cost structure. Our CCU in our more mature markets is less than $20. We have new appropriate product offerings that we have and will be bringing to the market as well as new initiatives that seem well dialed in to take advantage of this. We added 36,500 net customers in the third quarter of 2007, and our expectations for the fourth quarter for net customer additions are between 70 and 130,000 customers.

As we look ahead, during the second quarter we launched a variety of new rate plans, and we continue to see them as a strong driver of value for our business. Certainly, the third quarter year-over-year rate plan comparison demonstrates this on the left-hand of the chart. As you can see, we have been able to seek substantial pricing leverage as we brought increased value and services to the marketplace.

However, what we have seen not in our business but across our industry is you have seen a decline in customers buying monthly plans as a market share percentage, a reduction year over year of about 1.5%. This involves not only post pay but other monthly plans, and what we have seen is an increase in prepaid market share.

As you can see, the relative ARPU between these is quite a bit different, and we believe we have an opportunity as we look ahead in the $40 and under price points to provide additional value to customers and an interesting growth opportunity for our business. We expect to roll out plans during this quarter and following quarters that we think provide an interesting opportunity, and with the great progress that we've seen in the rate plan uptake, really allow us to address the needs of some economically challenged customers.

Over the last several months I've had calls with a number of investors and tried to highlight that during periods of churn fluctuations it affects how ARPU is realized in our business. During periods of declining ARPU, we see higher, faster rate of ARPU increases, and during periods of increasing churn you see a slower progression on that. This is, in effect, because you see not only a reduction in the service revenues but also, as these customers are deactivated, you see them carried for a short period of time under our deactivation policies in your average customer base.

With that said, with the effect of the strong build ARPU, we do expect to see ARPUs increasing during the fourth quarter to the $46 range as a result of the new rate plans that we've seen. We have enjoyed a lot of price success; but, as we have said for the last three years, that this effect will not continue indefinitely, so we will continue to monitor our progress on that carefully. For the fourth quarter we expect ARPU to be about $46 and churn to be between 4.5% and 4.7%.

Relative to CPGA, our spending levels were about as expected. Our CPGA reflects the changes that we've made in our higher content of branded distribution doors, which now represent about 70% of our gross additions as well as, during the quarter, slightly lower or the lower gross adds that we've talked about previously. This effect has demonstrated that with a $10 increase in subsidy cost that's reflected in the higher channel costs of the premier dealers as well as about a $10 higher cost in our direct store cost. This also reflects a $7.00 increase in CPGA related to our new initiatives, and we expect that trend to continue on into 2008, in that range of about $7.00 for the new initiatives. During the fourth quarter we think we're online to reduce the CPGA to about the $185, and our future trends appear consistent with our prior results.

Cash costs per user performed as expected, and particularly when you look at an absence of the costs associated with our new initiatives at about $20 of CCU. We expect fourth quarter, reflecting both the new initiatives and the higher uptake of the products related to our higher-value rate plans, to come in at about $22, and we expect the CCU will remain in this range through 2008. Subsequent to that, we expect a decline as the business gains scale through the addition of new customers.

With that said, Stefan, you want to review our financial results?

Stefan Karnavas - *Leap Wireless International, Inc. - VP, Finance and Treasurer*

While we experienced challenges during the third quarter which affected our near-term customer growth rate, we believe that the long-term potential for the business remains attractive. We recently concluded a significant investment cycle which nearly doubled our footprint, customer base and adjusted OIBDA. We passed a major milestone during the second quarter of 2007 in reaching adjusted OIBDA breakeven for these new markets. So we're in the early stages of realizing the benefits from these investments as we continue to penetrate these markets, leverage the cost structure through scale and grow adjusted OIBDA.

Turning to third-quarter performance, we delivered adjusted OIBDA $96 million. After adjusting for external activity spend and improved accounting, this result fell within the Q3 guidance range, which we provided on our second-quarter conference call. Adjusted OIBDA growth on a year-over-year basis was significant, growing by 87%. It is important to note that this included approximately $4.5 million in expenses related to external activities during the quarter.

When you normalize adjusted OIBDA for these costs, the year-over-year growth was nearly 100%. In addition to significantly growing OIBDA, we also expanded the OIBDA margin by 5.7 percentage points on an as-reported basis. Adjusted OIBDA margin grow to 31% excluding costs associated with new initiatives and other external matters.

On the liquidity front, Leap's cash position was $656 million at September 30, 2007. Our cash position and the flexibility inherent in the business to modulate the launch of new markets affords Leap with adequate liquidity and the ability to flex its capital outlays, if need be. In addition, we continue to manage leverage down as adjusted OIBDA has grown, and we expect this to continue.

Turning to slide 23, you can see the third quarter trends for service revenue, operating income and adjusted OIBDA over the past three years. On the left chart you can see that service revenue grew by 47% from the year-ago period. This growth was driven by a 42% increase in average customers and a$1.64 increase in ARPU as we continue to attract new customers to our higher-value rate plans. The service revenue compounded annual growth rate for the period was 35%.

The chart on the right side of the slide shows third-quarter trending for operating income and adjusted OIBDA over the past three years. You can see that there was a decline in the consolidated OIBDA growth rate in 2006 as we diluted OIBDA with the launch of new markets. However, as these markets achieved rapid penetration after launch and broke even in the second quarter of 2007, OIBDA growth rebounded in the third quarter of 2007 with an 87% increase versus the previous period. The OIBDA compound annual growth rate or CAGR for the period was 20%.

Turning to slide 24, during the third quarter of 2007 the adjusted OIBDA margin improved by 5.7 percentage points to 27% on an as-reported basis. The adjusted OIBDA margin grew to 31% including $13.1 million in new initiative costs and expenses related to activity during the quarter. Margin improvement was broad-based. Cost of service benefited from scale and fixed costs (technical difficulty)

Doug Hutcheson - *Leap Wireless International, Inc. - President and CEO*

We seem to be experiencing some technical difficulties with the conference call-in system. Please be patient while we work through this issue.

I apologize for the technical difficulties that we've had through our conference call host. Stefan, if you could pick the call back up, we'll pick it up to slide 23. I'm not exactly sure where we dropped out, but that's where will restart it.

Stefan Karnavas - *Leap Wireless International, Inc. - VP, Finance and Treasurer*

So we'll start on slide 23. You can see that the third-quarter trends for service revenue, operating income and adjusted OIBDA over the past three years. On the left chart you can see that service revenue grew by over 47% from the year-ago period. This growth was driven by a 42% increase in average customers and $1.64 increase in ARPU, as we continue to attract new customers to our higher-value rate plans. The service revenue compounded annual growth rate for the period was 35%.

The chart on the right side of the slide shows third-quarter trending for operating income and adjusted OIBDA over the past three years. You can see that there was a decline in the consolidated OIBDA growth rate in 2006 as we diluted OIBDA with the launch of new markets. However, as these markets achieved rapid penetration after launch and broke even in the second quarter of 2007, OIBDA growth rebounded in the third quarter of 2007 with an 87% increase versus the previous year. The OIBDA compounded annual growth rate or CAGR for the period was 20%.

Turning to slide 24, during the third quarter of 2007 the adjusted OIBDA margin improved by 5.7 percentage points to 27% on an as-reported basis. The adjusted OIBDA margin grew to 31% excluding $13.1 million in new initiatives costs and expenses related to external activities during the quarter. The margin improvement was broad based. Cost of service benefited from scale and fixed costs including leasing and utilities, software maintenance costs and employee salaries and related costs. These improvements were more than enough to absorb increased costs associated with new product launches.

Handset subsidy improved on the margin basis as increased the service revenue associated with the new market launches leveraged the handset subsidy. Sales and marketing benefited from improved purchasing and managing of collateral material, merchandising costs, PR and other media and advertising. G&A improved with scale as we leveraged these fixed costs. It's important to note that included in the G&A number for 2007 is approximately $4.5 million in costs associated with external activities, which put a drag on margin of 1.3 percentage points.

In summary, we're achieving margin improvement through scale, as we expected, and believe we will continue to expand margins as we further penetrate our markets. Given that we have demonstrated our ability to produce margins in excess of 40%, we expect adjusted OIBDA margins will continue to improve as we further penetrate our more recently launched markets.

Turning to slide 25, while operating income in the third quarter of 2007 was $2.3 million higher versus the year-ago period, net income decreased by $42.5 million for the year-ago period. The primary factors were, first, interest expense increased year over year by $17.6 million as a result of increased debt from $1.1 billion; and secondly, a $26.4 million increase in tax expense.

While Leap does not pay taxes for federal income tax purposes, we do report tax expense on our income statement. The increase in expense in the third quarter relates primarily to a change in accounting methods for tax amortization of wireless licenses. Previously, the tax amortization of wireless licenses commenced when a market launched. The new methodology generally commences tax amortization when Leap acquires a license. Of the $26.4 million total increase from the third quarter, $19.3 million is the cumulative effect of the new method through the second quarter of 2007, and $4.8 million relates to the third quarter.

While not immediately apparent, there were tangible benefits to the new tax treatment. The benefits include the acceleration of tax deductions related to wireless licenses, the conversion of $65 million in capital losses to net operating losses and the ability to claim tax deductions attributable to periods from 1999 to 2002 that otherwise would have been disallowed. Also note that this is a change in tax methodology and has nothing to do with our restatement.

As a result of the change, we expect the ongoing tax expense line to increase by approximately $5 million per quarter. In addition, we expect income tax expense to be approximately $9 million in the fourth quarter of 2007.

Turning to the liquidity on slide 26, we see cash on hand at the end of the third quarter of $656 million, and below the change in cash position for the second and third quarters of 2007. You can see from the summary of cash flows that we've shepherded our cash position during the past two quarters and we maintained a liquid balance sheet.

Available liquidity resources also include our $200 million undrawn revolver. Additionally, the capital structure, which was put into place in 2006, allows us to opportunistically look across multiple markets and make relative trade-offs between markets when or if we raise additional capital to fund the expansion of the business.

In addition to a healthy liquidity position, our leverage has come down since our high yield add-on earlier in the year. Using the midpoint of guidance for full-year 2007, we put leverage at 5.2 times, a reduction of over 30% since the high-yield add- on closed in June of this year. The benefits of deleveraging from continued OIBDA growth is expected. In addition, our capital requirements can also be managed by modulating new market launch schedules, providing an additional lever for the Company in managing liquidity.

Capital expenditures for the full year of 2007 are expected to be between $505 million and $545 million, including approximately $50 million of capitalized interest. This breaks down to $300 million to $320 million for the existing business and $205 million to $225 million for the new initiatives.

So with that, we look forward to filing or third-quarter 10-Q tomorrow and the remaining filings by the end of the year. Now I'll turn it back over to Doug.

Doug Hutcheson - *Leap Wireless International, Inc. - President and CEO*

As we look at moving the business ahead, we believe we are well-positioned for further growth. We think we have attractive initiatives that will bring us additional opportunity for continued customer and product growth. This includes broadening our customer appeal, investments that we're making in our mature markets to better serve our customers, expanding our product portfolio and launching the new markets that we acquired during Auction 66.

As we discussed with you on our analyst day, we believe we have an opportunity to leverage a common business model to both improve and broaden our competitiveness. Certainly, when we look at the uptake that we've seen in our new rate plans, it's apparent that we've had success in attracting increased value-conscious customers as a result of our functionality and the services that we provide. In addition, as we look ahead, we intend to expand our portfolio of products to also address the needs of our month-to-month customers as we look ahead.

We started a program midyear of investing in our established market. We think the enhanced footprint that's involved with this complements our other growth initiatives and is a continuation of the clustering concept that we began in late 2005, and we continue to see attractive results. Our mature markets have received limited investment since launched, which was frequently in 2001 and earlier. And result, what we have seen when we do cluster the markets together we see attractive results.

Here you see the new footprint that is nearly all launched in Arizona, and we expect that what isn't completed will soon be launched. The total scope of our activity involves the addition of about 600 sites, about half of which we expect will be done this year, and the addition of about 3 million additional covered POPs. Through the course of next year we expect up to an additional 2 million covered POPs. The expected benefits of this program are not only the addition of potential new customers but reductions to customer churn as we better meet their needs and a reduction of our off-network calling costs.

Over the last several years the Company has continued to invest in its product portfolio. During the second half of this year, certainly the success of both ring back tones and international text messaging continues to demonstrate the progress that we have made. We expect significant additional progress available to us as we continue with both data and voice applications and expect in the coming quarters you will see mobile video, music and social networking.

We've also done a lot with our handset portfolio. We now have our first QWERTY keyboard device for the fourth quarter, the Lingo by Kyocera. During the quarter and late in the third quarter we added Samsung to the our lineup of handset suppliers including Kyocera, Motorola, Nokia and UT Starcom. By the end of the first quarter we expect to launch an additional eight new handsets.

We announced in September a broadband trial. Our trial involves a $99 price for a PC card with monthly service between $35 and $40 a month, depending on whether or not you are an existing Cricket customer. We've expanded that trial to five operating markets as of the fourth quarter, and we will continue the trial market expansion with a broader array of devices in 2008. As we have done in previous efforts like this, we expect to follow a disciplined approach based on success.

The business certainly has an attractive new array of markets. We think we acquired some of the best-quality markets at some of the best prices for our business plan in Auction 66. We expect a rollout to begin in 2008, and we expect to have launches in the first half as we continue to see devices on track.

The spectrum clearing continues to evolve. We have some markets clear today and certainly have plans developed with most government agencies. We await further progress in finalizing some of those arrangements in the coming weeks and look forward to this resolution so that we can finalize our 2008 build plan. These markets, we believe, will fuel further growth.

As we shared during our analyst day, the key criteria that explain the largest percentage of the difference in our market portfolio is the quality of the footprint or the island nature of the market, the ethnic diversity and the employment prospects in the market. Over the last three years the Company has relentlessly focused on its quality of markets, and as we look towards launching the Auction 66 markets we see a substantial increase in the potential penetration opportunity that we face. So we look forward to continuing on our process.

The Company did announce that it would participate in Auction 73. The 700 MHz band has some appealing propagation characteristics that may be particularly interesting to certain industry players. Certainly, there is an expectation that the prices might be higher than prior auctions.

In addition, the spectrum has some significant complexities, whether it's public safety, different utilizations of the systems, harmonic considerations, the complexities with handsets or the auction mechanics themselves. Both the Company (inaudible) has filed to participate in the auction with downpayments due late in December. I think you can expect a thoughtful management of the Company's activities and resources during this process.

As we look towards fourth quarter and longer-term, in addition to the customer activity guidance that we previously updated, we also provided you a reiteration of our outlook from November for fourth quarter and full-year 2007. The business is on track, and we look forward to completing this year. As Stefan mentioned, we have reduced the amount of CapEx that we intend to spend. This reduction is principally a result of timing.

Throughout today's presentation we've provided significant information about how we expect our business to evolve and change. Over the past several months, I and others at the Company have talked with many of you and one of the common themes for many investors involves providing a longer-term view of how our business will evolve.

We believe that that outlook that we provided today, when included with the other information also included in this presentation, gives a broad picture of how our business will develop. We believe there's substantial existing market growth, substantial growth potential from Auction 66 properties. And our new initiatives, we believe, will position us for the opportunity in front of us to potentially double our business again just as we are now seeing the completion of the goals that we set in the first half of 2005.

The CAGR range reflects how our business will grow, coupled with the launch of new markets. As we launch markets, the rate will influence whether we're in the lower range with less and slower launches or the higher range with more and faster launches.

Regarding the launch of markets, the Company broadened its range for new market launches in 2008. This reflects the potential movement of one or two markets into 2009. The Company expects to reach agreement both regarding the clearing of these markets but awaits its completion. In addition, both timing and the quantity of new POPs launches, it is clear over the last three months that the capital markets have been volatile. The Company has adequate resources to launch a significant number of new markets and is moving ahead. To expand and accelerate the number of launches as well as fund our other new initiatives, we may access the capital markets at an appropriate time.

In summary, we believe we're a strong, continuing growth story. We delivered year-over-year results and improvements in our operating performance and certainly have solid cash flows from our operating markets. During the quarter we overcame a number of challenges, and we're glad with the completion of the restatement, to put those behind us. Our business is resilient, moving ahead, and we look forward to completing this year and moving into 2008 as we capitalize on our attractive growth prospects not only from our new business but from our new initiatives, new markets and our broadband strategy. With that I will turn the call back to Jim.

Jim Seines - *Leap Wireless International, Inc. - Director, IR*

Can you please open the line for the question-and-answer session for today's call?

QUESTIONS AND ANSWERS

Operator

(OPERATOR INSTRUCTIONS) Simon Flannery with Morgan Stanley.

Simon Flannery - *Morgan Stanley - Analyst*

Thanks very much and thanks for a lot of detail, Doug, as well; we appreciate that. I just wanted to make sure I understood what you were saying on this collaboration. You talked about the Metro deal, but in the text you mentioned that you've taken steps to explore appropriate collaborative alternatives. Did you say that that's all finished now, or is that still something that we may see over the coming quarters as you think about building on some of these new markets?

Then, secondly, the lap top card, you're expanding the trial. Maybe you could give us a little bit of color. What caused you to do that? Have you been getting some good results in early markets?

Doug Hutcheson - *Leap Wireless International, Inc. - President and CEO*

The Company has always endeavored to look for appropriate collaborations with other partners, and we would expect that we would continue to do that as we look ahead. Certainly, however, at this time the Company has no active discussions on that, recognizing that we're involved with an auction at this point. So as a result of that, during the third quarter we completed and wrote off all the expenses that had been related to any other discussions.

In addition to the second part, I think the results from the broadband trial have been promising. We've seen nice uptake from our customers. We need to expand our device portfolio on that. We expect that we'll do that over the next several quarters, and we've also chosen to expand it so it's operating within all of our different infrastructure suppliers so that we can be confident that the product works as we anticipate. I would expect that we'll have a little bit more detail in our fourth-quarter conference call in the next coming months that we will be able to share with you on that.

Operator

Christopher Larsen was Credit Suisse.

Chris Larsen - *Credit Suisse - Analyst*

Thank you again for the details -- very helpful, as someone mentioned. I missed what you had said. You talked a little bit about the variability and what would cause the variability in the build-out in 2008 and through 2010. If you could touch on that again?

And then, as you mentioned, you expect in the first half of 2008 to get AWS handsets. Can you get a sense right now for is there a big price differential? Are you going to see just as much variability or rather diversity in those handsets? Lastly, I don't know if you can answer this question on the Auction, but can you tell us how many bidding credits both you and Denali are going to have together and how you might finance any potential wins?

Doug Hutcheson - *Leap Wireless International, Inc. - President and CEO*

Al, do you want to answer on handsets?

Al Moschner - *Leap Wireless International, Inc. - CMO and EVP*

We are very comfortable, first of all, with the supply of those handsets. The team has done a lot of work with a whole array of suppliers. Our current group of partners are all going to participate with AWS, so first of all we're very pleased with that and thank them for that effort.

Secondly, your question specifically was around cost. There is some very small initial premium that we are seeing. We are working with our OEM suppliers around that, and we, however, believe that over time that something -- that's going to be very, very manageable. But there is a small premium up front that will diminish over time.

Chris Larsen - *Credit Suisse - Analyst*

Do you expect to, at some point, just buy AWS-capable and Flash PCS-capable handsets and sell them throughout the footprint?

Al Moschner - *Leap Wireless International, Inc. - CMO and EVP*

The intent is to, as we progress through 2008, is to diversify the entire market with AWS. As you know, there are a number of rate plans that we use that provide roaming, and we do want to proliferate all of the markets with handsets that have the ability to roam now in all of our markets as AWS rolls out. So yes; you will see us move more and more to AWS in all markets throughout the year.

Doug Hutcheson - *Leap Wireless International, Inc. - President and CEO*

To the first question, on the variability of the timing, there's two things going on there. First, the Company is launching some large, substantial markets this time, and so small changes in timing, when you're certainly looking inside a calendar year, may look more dramatic. You could have one or two markets change over a relatively short period of time, and it will look more dramatic than it is. So the Company is making a decision to make sure that we leave that variability in front of the us as we watch things develop.

In addition, what we have made a lot of progress and we're optimistic that we will reach a conclusion, we have some agreements that are pending to get completed with the government agencies. And we're also don't -- we want to wait until they are done before we finalize. So I think our guidance also reflects that as well.

Lastly is -- the Company has -- enjoys good liquidity and has the ability to continue to fund, I think, its activities and to build out a number of these POPs, but we have also watched quite a bit of volatility in the markets, and we would tend towards providing ourselves, I think, adequate cushion to look at doing that to vary the timing also to make sure that we are managing our liquidity as well as we look ahead.

The Auction 73 bidding approach -- we're under collusion rules at this point, defined by the FCC, and we can't give you a lot of information on that. I think the spectrum is something that we feel it's important to take a look at. We will see how it evolves, but expect a thoughtful, disciplined approach as we look at.

Operator

Romeo Reyes with Jefferies.

Romeo Reyes - *Jefferies & Company - Analyst*

First, a question on the competition that you mentioned on the call. I noticed on your website that you were offering a $25 all-you-can-eat plan in a few markets -- actually, probably across all your markets. If you could give us a sense of whether or not -- if that's a recent development and if you're seeing any take-up rates on coming back from the ARPU increase. It doesn't seem like you're seeing much year on year, but I don't know if you just introduced that, if you're maybe using it as a retention tool for customers who can't pay $45 a month.

Then the second question relates to -- I guess Simon asked a little bit about the broadband initiative. Could you give us a little bit of color on the take-up rates at all in your initial trial markets?

Doug Hutcheson - *Leap Wireless International, Inc. - President and CEO*

As you look at what we might be doing this quarter, which I don't know that it's necessarily where we'd be headed over the longer term, I think it was slide 17 where we talked about ARPU. What we have found is we're not seeing a lot of pressure. In fact, frequently, when you see new entrants at some of the higher price points, the market expands for everybody. So we're not seeing a lot of pressure at our higher-valued rate plans, and that was demonstrated by the rate plan uptake that we provided on that slide.

But the Company has not put as much attention to providing value down at some of the other price points, and what you have seen is actually some share shift down in the $30 ARPU range that has occurred, and what we are saying is we think we have -- we can tailor value in that segment and it's an area that we haven't been active in for the last six or seven months and it will become active as we look ahead. I think we have a nice, balanced portfolio of products. I think we have a lot of attractive value that we brought on the high end that really lets us look at this comfortably and really continue to drive our business ahead.

So I think we're answering the question. To the degree that we've seen competition it tends towards being in an opportunity that is typical as you see customer behavior change during an economic cycle. So we're looking forward to addressing that. The plan is a trial, and that's why we've said that we will look at what we do over the coming quarters.

The broadband pickup has been promising. It's very narrowly distributed right now, so there's not very many outlets on it and it's distributed only on one product for an older style PC. So with that, the take-up that we've seen has been interesting, and we have customers that are interested. What we're anticipating doing is getting a little broader array of devices, and then you will see us expand the distribution in those markets, and we'll see how it evolves from there.

Romeo Reyes - *Jefferies & Company - Analyst*

Just a quick follow-up question on incremental penetration. I guess, if you look at [LTM], (inaudible) penetration, I guess it's probably, I don't know, 1-1, 1-2. I guess one of your peers is averaging about 20% higher than that, 20-25%. Is there a difference in how you distribute your product versus how others distribute their product in this segment that would have, I guess, produced this discrepency in incremental penetration?

Doug Hutcheson - *Leap Wireless International, Inc. - President and CEO*

Well, I don't know about others. I'll talk to what we are doing to -- what we think gives us an opportunity for increased penetration. The first thing is clearly in the first half of this year we saw some real attractive progress on our business, and we believe that that attractive opportunity remains for us an acceleration of the growth rate. That's why we've chosen to do a variety of different programs, whether it's our service offerings or the investments that we're making in our mature markets. So we will continue to work on those things and let them bring forward results over the coming quarters.

We have made a decision, and we continue to believe that it will provide us good results to do more of our distribution through a branded presence. We call that our premier dealer program, and we continue to see evidence that that program, while it may cost a little bit more up front to bring them in --a customer through a branded presence, the data we have indicates that you get a longer-life customer. And so what you see that back is in churn.

That's why we've chosen to give the amount of detail on the year-over-year churn to described in detail our tenure effect and our upgrade effects so that you can see underlying churn in the business is doing pretty well. And it's why we believe our long-term churn prospects continue to be promising. So bringing the branded distribution has brought us a lot of results, and we look forward to continuing to do that. But don't think that's attributed to any differences with others you may see on penetration.

Operator

David Barden with Bank of America.

David Barden - *Banc of America Securities - Analyst*

A couple questions again maybe just on competition a little bit. We knew about Sprint at the high end, and your comments lead me to believe that what you're saying is really no impact from competition at the higher end. The economy was something we were aware of. I guess the competition, "at the lower end" is the surprising piece of it.

With 1500 minutes of use, on average people dropping off the bottom of your plan and going to a $25 plan at $0.10 a minute and going to 250 minutes of use seems like a big, radical shift, kind of dropping out the bottom of your base. So I was wondering if you could elaborate a little bit on what's happening, really happening, in the minute usage at that level.

But then, at the same time, are you seeing any evidence on the other side that, for instance Sprint's 10 million subprime post-pay base is starting to shake loose and that, from that level, you're seeing increasing amounts of higher-end customers coming in the door or you might see that accelerating over the course of the next couple quarters?

Doug Hutcheson - *Leap Wireless International, Inc. - President and CEO*

I can't answer for anybody else. I can only answer for what we're doing. What we've seen is attractive uptake of our higher-valued rate plans. So one of the things that we feel comfortable with is that we will continue to evolve our product portfolio, as we always have. We think that there's lots of continued opportunity in that and you will watch us continue to put a lot of effort into the higher-value rate plans.

I think the fact we've discussed -- I want to start -- we said we're in a competitive industry every time, I think, we've ever talked to investors. And we've said that we thought that that would evolve. And so the fact we're talking about a specific competitive situation -- I think we always are. So I don't want to see us flag.

Certainly, we saw change. What we're providing you is the change that we saw on customer uptake. We're providing you where the change occurred. So what we saw is, as customers became more stressed economically, which we have seen and I think the industry has seen across a number of different areas, what we saw is those customers opting to just spend less money.

What you also saw is us not have a lot of value for them in that area. It's just an opportunity. We are not very alarmed by it; it's an opportunity we get to go address. I think that we can compete there. Our cost structure remains, our brand relationship with these customers is there. I think it's an opportunity that's ours to now go see what we can do with. So I don't sense this is a radical change. I just see it as an opportunity that we get to move through and see how we can go create some value with it. we look forward to taking it on.

David Barden - *Banc of America Securities - Analyst*

Might this be an opportune moment to maybe reinvigorate the Jump product or some other kind of initiative that looks less at maybe bringing the unlimited plan down to $25 a month but maybe bringing some of those economics into the pay-per-minute world at, for instance, $0.03 or $0.05 a minute, that sort of thing?

Doug Hutcheson - *Leap Wireless International, Inc. - President and CEO*

I don't want to comment on pricing, but the answer to that is yes. Certainly, we looked at that on Jump. We've never been satisfied that we got that distribution where we wanted it to be, and frankly saw an awful lot of success in a lot of other areas of the business and chose to focus on that. I think we have an opportunity to revisit the right way for us to grab ahold of that part of the business, and we will undertake to go do that.

Operator

Ana Goshko with Banc of America.

Ana Goshko - *Banc of America Securities - Analyst*

First of all, on the 12 to 28 million potential POPs to be launched in 2008 and then on your comment on potentially opportunistically accessing new financing, I know there are a lot of different moving pieces and you can modulate your market launches. But what do you think you are fully funded for, given the cash cushion you'd like to maintain? Of the POPs, how many POPs could you launch in 2008, in theory, with your current funding position?

Doug Hutcheson - *Leap Wireless International, Inc. - President and CEO*

Well, we've given the range of POPs that we expect that we would launch, and I think that as you look at that you will see, depending on how you model the business, that there's a variety of (inaudible) that are fully funded. The Company tends towards wanting to maintain liquidity certainly in excess of $100 million and would not look towards the revolver as necessarily being the source of that liquidity. So, with the guidance package that we gave, we think we've given people an opportunity to figure out the different ways that we would look at that.

I think the Company has and it will continue to be mindful of being thoughtful in how we do things. We think the markets that we've got on tap that we can launch this year are attractive, and we'll move forward with them and also encourage investors to recognize that the number, the difference between 12 million and 28 million, is really because of the size. They are chunky, big chunk numbers as well, as you look at things.

Ana Goshko - *Banc of America Securities - Analyst*

My second question was, back when you reported Q2, you had EBITDA guidance out for 2008, and I'm assuming now that's off the table until you clarify some things. At that point it was supposed to be about 20 to 28 million POPs launched in 2008 with 550 to 650 of EBITDA. Is that still generally on the table? So, for example, if you were able to launch the 28 million POPs in 2008, would that still sort of put towards the low end of your prior guidance, or are there too many other moving pieces now that (inaudible) really changed your outlook?

Doug Hutcheson - *Leap Wireless International, Inc. - President and CEO*

I think the way we were giving guidance didn't appear to be working, and so we've tried to put a guidance package out that lets people see how our business is going to grow. When you have the pieces that we're moving through right now it became clear to us that a more appropriate way to give guidance was on the three-year CAGR.

So the answer is we're not updating our old guidance for 2008; in fact, we are giving a longer range of guidance and a lot more detail if you look at the totality of our presentation. We've given investors the ability and analysts to really look at seasonality, to look at how our business evolves and changes, and we've given a lot of details around how we expect our metrics to evolve as well.

So the guidance stands now that we're expecting our CAGR to be between 30% and 40%. As we launch more POPs sooner, you would normally see lower near-term OIBDA and higher longer-term OIBDA but also the higher CAGR. And as you launch less POPs you would see higher near-term OIBDA but a consequently lower CAGR over the three-year time period. And we'll keep updating investors as we move through what we think our best outlook is on the launch schedule and the other new initiatives.

Operator

Will Power, Robert W. Baird & Company, Inc.

Will Power - *Baird & Company, Inc. - Analyst*

I know you all alluded to improving momentum and subscriber growth kind of following the Thanksgiving holiday. I guess I'm trying to understand what the real drivers of that are. How much of that is actual normal holiday seasonality? How do you kind of parse that apart versus other changes to plans, promotions, et cetera?

Doug Hutcheson - *Leap Wireless International, Inc. - President and CEO*

Well, I think it's premature for all of us to figure that out. It's something that we work our way through. This quarter is, certainly of all of -- we have three quarters that tend towards being back-end loaded, and this one is kind of the back-end loaded quarter. So there is a lot ahead of us, and while we've seen post-Thanksgiving moment them, as we also said, the beginning of the quarter wasn't as strong. That was reflected in our guidance that we updated as well.

What I think a number of players saw as we looked at retail numbers is we saw a number of people see a pickup in spending, certainly in the discount area as well across the board, post Thanksgiving, and it seems like we have enjoyed that similar trend. We'll wait to see how much we attribute to what thing as we get into the end of the quarter and see how the quarter unfolds.

Operator

Jonathan Atkins with RBC Capital Markets.

Jonathan Atkins - *RBC Capital Markets - Analyst*

I wondered if you could give us a little bit more color around the CFO search and then, related to CapEx for next year, if you could maybe comment on the relative role of distributed antenna systems versus conventional cell sites in your market build-out activities.

Doug Hutcheson - *Leap Wireless International, Inc. - President and CEO*

Well, first and foremost, there's no search dearer to my heart than the CFO search, and I've been very active on that and look forward to continuing to try and complete that process. We would like to get it done promptly, and so there is a little bit of the end of the year that we're confronted with here that we'll have to modulate our success on that. But I can tell you the Company is active and hopefully is -- has and will continue to see people, prospective candidates that are appropriate.

[DAS] played a pretty large rollout in our -- some of our rollouts this year. We will see it play a role in some of our rollouts next year. It doesn't have applicability across all markets, tends towards being a little bit more centralized in a core market, and the economics on it are still kind of developing. We look forward to the vendors also participating in how those economics develop as well for us. So we'll see how the role evolves.

With that, Jim?

Jim Seines - *Leap Wireless International, Inc. - Director, IR*

Thank you for joining us today. We look forward to updating you on our business at our next quarterly conference call. If you have any further questions about our third-quarter results or need additional clarification on the material discussed today, as I'm sure you do, please feel free to contact us at 858-882-6084. Thank you.

Operator

Ladies and gentlemen, this concludes today's presentation. You may now disconnect. Have a great day.