

FINAL TRANSCRIPT

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LEAP - Q3 2006 Leap Wireless International Earnings Conference Call

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Nov. 07. 2006 / 5:00PM, LEAP - Q3 2006 Leap Wireless International Earnings Conference Call

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PRESENTATION

Operator

Good day ladies and gentlemen, and welcome to the third quarter 2006 Leap Wireless international earnings conference call. My name is Melanie and I will be your coordinator for today. [OPERATOR INSTRUCTIONS]. I would now like to turn the call over to Mr. Jim Seines, Director of Investor Relations. Please proceed, sir.

Nov. 07. 2006 / 5:00PM, LEAP - Q3 2006 Leap Wireless International Earnings Conference Call

Jim Seines - *Leap Wireless International - Director IR*

Thank you, Melanie. Good afternoon. And welcome to Leap's third quarter 2006 conference call. This call is being recorded and will be available for playback in the U.S. through close of business November 17, by calling 1-888-286-8010. Callers from outside the U.S. will have to dial 1-617-801-6888. The pass code for both calls is 18298226.

This conference call is also being webcast live and will be available for replay on the Investor Relations section of our Web site at www.LeapWireless.com for the next 30 calendar days. Joining me on the call today to discuss our third quarter results are Doug Hutcheson, President and Chief Executive Officer, Amin Khalifa, Executive Vice President and Chief Financial Officer, Al Moschner, Executive Vice President and Chief Marketing Officer, and Glenn Umetsu, Executive Vice President and Chief Technical Officer. Following our prepared remarks, Melanie will come back online with instructions for keying in to the question-and-answer period of today's call.

The historical financial and operating data we will discuss today including customer information reflects the consolidated results of Leap, its subsidiaries and its noncontrolled joint ventures, Alaska Broadband 1LLC, LCW Wireless LLC and Denali Spectrum LLC for the periods indicated. Also, as used in today's conference call, existing markets refers to the Company's markets in operation as of December 31, 2005. New markets refer to those markets launched and/or acquired subsequent to 12/31/05 and do not include markets provisionally purchased in Auction 66.

During the call today we will discuss some non-GAAP financial measures including estimated existing market adjusted OIBDA. Estimated existing market adjusted OIBDA modifies adjusted OIBDA to exclude the total revenues attributable to new markets that are included in total consolidated revenues, and to include estimated market level operating expenses attributable to new markets that are included in consolidated total operating expenses. Other than depreciation and amortization, and share-based compensation expense, which are excluded through consolidated and adjusted OIBDA. Corporate and regional level operating expenses are allocated to and reflected in estimated existing market adjusted OIBDA.

For a GAAP reconciliation of non-GAAP financial measures, please see the financial reports page of the Investor Relations section of Leap's website, www.LeapWireless.com. 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 quarterly report on form 10-Q for the third quarter of 2006, which we expect to file shortly. And in our other publicly filed reports.

Finally on July 1, 2006, we completed the sale of our Toledo and Sandusky operating markets covering approximately 600,000 potential customers to Cleveland Unlimited, and concluded the formation of our new Oregon joint venture LCW Wireless. Our third quarter results reflect the consolidation of LCW into our financial statements as well as the gain from the sale of the Toledo Sandusky assets. In addition, our net customer addition results have been adjusted to eliminate the effect of transferring approximately 31,000 customers in the Toledo and Sandusky markets to Cleveland Unlimited.

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. Today, we're pleased to report on our continued success in implementing a vision for the Company's future that touches all facets of the business. A vision that is expected to strengthen our performance as we build a solid platform for continued attractive growth and future expansion. Once again, even as we're implementing our plans, we've delivered results for the third quarter that clearly demonstrate the business is making strong progress in achieving our objectives.

Nov. 07. 2006 / 5:00PM, LEAP - Q3 2006 Leap Wireless International Earnings Conference Call

We're working to ensure the wireless services we provide to our customers are more innovative, reliable, and cost effective than ever. At the same time, we position the Company for further growth by acquiring and launching a portfolio of new market and market clusters, each of which has enhanced the footprint of our Cricket service. We have devoted the necessary resources to ensure the successful rollout of new markets demonstrating solid operational execution with each launch. The attractive results we see in our existing markets and the encouraging performance in our new markets has led the Company to implement a thoughtful plan for further expansion. As a result of our success in the FCC's recent auction, we were the winning bidder on another portfolio of select new markets and are now developing detailed plans to launch them in the coming years. Our success relies on solid execution and a tight focus on well-defined objectives supporting our strategy.

I would like to take a moment to highlight a hue of our major accomplishments since our last conference call. We launched Cricket service in Kansas city, bringing our total covered POPs to approximately 41 million. The new markets are continuing to perform well, and our launch teams are making good progress. As examples, we expect the Houston market to be near or better than OIBDA break even at the market level by year end, And we expect to launch nearly 20 million new covered POPs, the high end of the launch forecast of the year. Leap and our joint venture, Denali Spectrum were winning bidders on 100 licenses in Auction 66 in September. Assuming the completion of all spending -- pending spectrum transactions, Leap and its joint ventures will own spectrum covering approximately 182 million license POPs.

To support our growth we successfully completed three capital market events. Coupled by the senior secured facility completed late in the second quarter, we now have the resources to allow us to effectively move forward with the next phase of our business development. The company's third quarter performance once again achieved Management's operational and financial expectations. We added 161,000 net new customers during the quarter, principally in new markets which was in line with our expectations. We also recently reached a new milestone in total customers as the Company crossed the 2 million customer threshold in October.

We achieved adjusted OIBDA of approximately \$61 million for the third quarter, even after absorbing an estimated \$27 million of negative contribution associated with our new market launch activities. In addition, our existing markets achieved an estimated adjusted OIBDA margin of 39% based on service revenues, up from 34% in the previous year, even as we delivered nearly twice the product per customer as other carriers at approximately 20% less ARPU.

I'm again pleased with our Calculated Contribution Per User. A measure of subscriber economics that demonstrates the net expected margin we realize per customer each month. The company's CCPU for the third quarter was \$16 including a \$1.37 of negative impact from the new market launches. Our performance on this measure improved by approximately \$1.50 from the third quarter last year, even as we supported the costs associated with expanding and optimizing the Company's footprint. These accomplishments were the product of the hard work and dedication of employees in every market and across all organizational roles.

Even with the challenge of implementing operational improvements, launching new markets and the tremendous efforts required for the auction related activities our employees diligence and commitment to quality performance resulted in another outstanding quarter. I would like to take this opportunity to recognize our employees for their efforts and thank them for their role in our success. During today's call, Amin, who we introduced during our the last conference call and who joined us late in August will provide a review of the Company's financial results for the quarter. Followed by AI, who will provide an update on our customer and operational progress. And Glenn, who will review our operating costs and build out progress. I will wrap up the prepared portion of today's call with a discussion of the results of Auction 66 and our business outlook for the remainder of 2006 and 2007.

With that, I would now like to turn the call over to Amin.

Nov. 07. 2006 / 5:00PM, LEAP - Q3 2006 Leap Wireless International Earnings Conference Call

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

Thank you, Doug. And good afternoon. Leap delivered strong operating results in the third quarter, increasing our revenues to \$288 million, introducing \$61.2 million of adjusted OIBDA while absorbing a negative contribution of an estimated \$27 million associated with our new markets.

During the quarter, we launched four new markets, expanding our coverage by an additional 2.9 million covered POPs. In addition, we completed our planned financing activities and have successfully positioned the Company for continued growth. For the third quarter, total revenues increased by \$57 million, or 25%, and service revenues increased by \$55 million, or 29%, compared to the same quarter last year. This increase was primarily due to a 17% increase in average total customers, and continued improvements in the overall penetration of our higher rate plans. Reflecting our success in growing the business both in our existing and new markets.

Equipment revenues for the quarter increased by \$1.6 million, compared to last year. A 64% increase in handset sales volume was offset by lower net revenue per handset. A result of bundling the first month of service into the initial handset. Price and eliminating activation fees for new customers who purchased equipment. This is consistent with the changes in our business discussed during the company's second quarter conference call. Total operating expenses for the quarter increased by \$76 million, or 35%, over the third quarter of 2005. And by 5.6% as a percentage of service revenues. Cost of service, cost of equipment, and sales and marketing expenses all increased this quarter as we reached peak launch activity for the new market.

However, general and administrative expenses, excluding stock-based compensation expense, decreased by 2% of service revenues due to cost reductions and the benefits of scale. Stock-based compensation expense was \$5.1 million, for the third quarter of 2006, compared to \$2.7 million for the prior year. We are pleased the Company achieved its OIBDA performance expectations in a quarter that has significant activity on a number of fronts. Estimated existing market adjusted OIBDA increased 33% compared to consolidated adjusted OIBDA in the prior year, demonstrating a continued improvement in year-over-year performance of existing markets.

The new market launch expenses minimally exceeded the guidance we provided last quarter due to greater uptake of the entry level handset promotions and stronger-than-expected productivity in the indirect channel. The net effect of these results does not change our expectation of achieving break-even in these markets with approximately \$5 of cumulative operating losses and working capital impact per covered POP. During the quarter, we conducted our annual wireless license impairment tasks and recorded a charge of \$4.7 million related to certain nonoperating expenses, compared to an impairment charge of \$0.7 million in the third quarter of 2005.

We completed the sale of wireless licenses and operating assets in our Toledo and Sandusky Ohio markets for \$28 million in cash, and an equity investment in LCW Wireless. A designated entity which held a wireless license in Portland Oregon. We recognized the gain of \$21.5 million from this transaction. We also contributed approximately \$21 million in cash and wireless licenses and related operating assets in Eugene and Salem Oregon to LCW Wireless, resulting in our owning a 72% non-controlling interest in LCW Wireless.

Turning to items below the operating income line, we recorded an income tax benefit of \$3.1 million for the third quarter attributable to the three items related to the wireless licenses and LCW joint venture. Which compares to income tax expense of \$10.9 million in the third quarter of 2005. Our income tax expense for the year is projected to consist primarily of the deferred tax effect or the amortization of wireless licenses and goodwill for income tax purposes. We expect to pay only minimal cash taxes for the year.

Our net income was \$10 million for the quarter, or \$0.16 per diluted share, compared to \$16.4 million, or \$0.27 per diluted share for the third quarter of 2005. We would have recorded a net loss for the quarter had it not been for the gain on sale of the Toledo and Sandusky Ohio markets. We expect net income to decrease in the fourth quarter and as we have outlined throughout this

Nov. 07. 2006 / 5:00PM, LEAP - Q3 2006 Leap Wireless International Earnings Conference Call

year, we may incur a net loss for the year due to the effects of new market launches and expenses associated with our increased indebtedness.

Turning to quarter over quarter performance, service revenues were up \$18 million, or 8%, from the second quarter. Reflecting a higher average number of customers and a larger percentage of customers subscribing to our higher end rate plan. Equipment revenues increased by \$1.4 million, or 3.7%, compared to the second quarter.

Total operating expenses for the quarter increased by \$41 million, or 16.4% over the second quarter and increased by 8.5% as a percentage of service revenues. This change was driven by increases in operating costs attributable to the addition of more than 400,000 gross customers and over 160,000 net new customers. Primarily a result of launching new markets during the quarter. Interest expense for the third quarter was \$15.8 million compared to \$8.4 million in the prior period, due mainly to the higher level of debt and higher interest rates on our floating rate debt.

During the quarter, we successfully completed our planned financing activities. In October we borrowed \$570 million under our bridge loan facility to help pay for our Auction 66 licenses. Soon after we issued \$750 million in senior unsecured notes and used part of the proceeds to pay obligations under the bridge loan under which we terminated the facility. Our senior notes are due in 2014 and accrue interest at 9.375% per annum paid semi annually beginning in May 2007.

Finally in October we issued 6.44 million shares of our common stock as a result of our settlement of our forward sales agreements which yielded net proceeds of approximately \$259 million. As a result, total unrestricted cash, cash equivalents and short-term investments at October 31, 2006, was in excess of \$550 million.

The business is undergoing a number of changes in our market portfolio and we want to suggest a framework to help you understand how our business will evolve. First, think about our business as having about one-third of our covered POPs in our existing markets that are generating strong and adjusted OIBDA. Another third of our POPs are part of our current network optimization and expansion plan which includes those markets launched in 2006 and 2007. Most of those markets have been launched this year, and are currently at peak expense and negative impact to OIBDA, but are expected to contribute robust OIBDA growth in the coming years. The last third of our POPs are the markets that will be included in the first phase of Auction 66 development. We expect to start building out these markets in the latter part of next year, and launching in 2008. And we expect the first of those Auction 66 markets to start turning OIBDA-positive in late 2008, or the beginning of 2009.

We currently expect the first days of construction associated with our Auction 66 licenses to cover approximately 24 million POPs with aggregate capital expenditures expected to be in the range of \$28 or less per covered POP. We also expect the initial buildout during this first phase to commence in 2007 and to be substantially complete by the end of 2009. We believe we are fully funded for this first phase of construction, based on our initial launch estimates.

We believe that the guidance -- with the guidance we have provided today, Cricket's leveraged free cash flow will be at or near break even for the full year of 2007. Before any significant Auction 66 launch expenses, our definition of leverage free cash flow is adjusted OIBDA less capital expenditures, less cash, interest expense and principal repayments, plus interest income. With respect to additional phases of Auction 66 buildout activity, we may need additional funding depending on the timing and scope of those future phases. However, we do not intend to begin new buildout phases other than initial planning work, unless we have secured any additional capital resources that may be necessary to fund our development.

Reflecting on my first two months with Leap, they have been eventful and I am impressed with the energy and enthusiasm behind the Company's commitment to continue this growth. My assessment of the accounting group is that they have made significant strides in addressing our material weaknesses, to improve processes, in the hiring of key additional accounting and tax personnel. One important focus in the coming year will be to work with our team to further enhance processes and systems in order to support the Company's growth and to further leverage the cost structure that will accompany this business expansion. I certainly look forward to working with many of you on today's call, as we update you on our progress in the coming quarters. I would now like to turn the call over to AI to discuss marketing, product development and customer activity.

Nov. 07. 2006 / 5:00PM, LEAP - Q3 2006 Leap Wireless International Earnings Conference Call

AI?

AI Moschner - *Leap Wireless International - EVP, CMO*

Thank you, Amin. And good afternoon to all of you who have joined us today.

As Doug and Amin have noted, we had another quarter of attractive results as Leap and AMB successfully launched Cricket services in several new markets. We also built upon initial introduction of our WAP data and content strategy which we believe will support additional future ARPU growth and provide a robust content platform as EVDO is deployed. During the third quarter, consolidated gross customer additions were approximately 405,000, representing a 73% increase over the gross additions during the same period last year.

Total net customer additions were approximately 161,000 new customers for the third quarter, bringing tremendous growth to our business. Here are some of the highlights for the quarter which demonstrate the Company's continued progress. First, the Colorado springs market, which we launched in the first quarter of 2006, reached OIBDA break even at the market level during the third quarter. Second our distribution network in Houston is now firmly in place, and aligned with the Cricket brand. And the market's performance reflects our success. Based on our results to date, we expect Houston to reach OIBDA break even at the market level in the fourth quarter of 2006.

Third, we continue to expand our business with four new market launches in the third quarter. In addition to our most recent launch in Kansas City earlier this quarter. We added Lexington and Louisville to Cincinnati and Dayton to create the Ohio valley cluster and we added Austin and Temple Killeen to form a Texas cluster with San Antonio and Houston and we are encouraged by the initial positive response from customers by the larger clustered home calling areas.

Finally the company expands another strong quarter of customer activity in our other new markets. We are pleased with our results and continue to believe that they validate our chosen strategy in the direction we have taken. Although our net customer growth overall was strong, we did experience the seasonal increase and gross additions and churn that is typical for the third quarter in our existing markets. We also believe that some market segments were affected by high fuel prices that peaked early in the quarter.

As a result, the Company experienced greater volatility in both customer deactivations, and reactivations during the quarter, indicating increased financial hardship on lower income customers. Consequently, churn for the quarter was higher, was at the high end of our guidance and attenuated existing market new customer performance. New customer additions in our existing markets were approximately 5,000. And the new markets contributed approximately 156,000 net additions.

Looking ahead, the fourth quarter is typically the industry's most competitive selling season, with many providers introducing special sales incentives. We consider this environment in setting our fourth quarter guidance of total net customer additions of between 160,000 and 260,000. We expect to see the typical seasonal improvements in net additions in the existing markets and robust growth in our new markets for the fourth quarter. Churn for the third quarter was 4.3%, better by 0.1% than churn in the third quarter of 2005, and as mentioned earlier, within our guidance range of 3.9 to 4.3%.

Strong growth over the last few quarters in our new markets is shifting the profile of our base toward less tenured customers who demonstrate higher churn rates early in their life cycle which moderate as the base matures. When combined with the typical seasonal rhythms in our existing markets, we expect churn to be between 3.9 and 4.2% in the fourth quarter. We will continue to introduce programs we believe address the three primary reasons for customer churn that we can impact. Ability to pay, handset issues, and product and feature sets.

This quarter, we are introducing new handsets, service rate plans, and we look forward to positive impacts from our market clusters. As we continue to observe, fuel price increases may introduce an element of risk in the retention guidance for the

Nov. 07. 2006 / 5:00PM, LEAP - Q3 2006 Leap Wireless International Earnings Conference Call

coming quarter. However, with the introduction of pay in advance, we are expecting improved customer retention resulting from the acceptance of attractive payment options for reactivating customers and approved ability for customers to upgrade their handsets. It will take several quarters for us to fully benefit from this improvement.

Turning to operational metrics, service revenues for the third quarter were up. Pushing ARPU to a record \$44.39. An impressive \$4.17 increase from the third quarter last year. Over \$1.00 of this increase can be attributed to the impact of the move to pay in advance. As we discussed on our last conference call, we expected our move in the second quarter to a new billing methodology to increase CPGA and ARPU. And we are observing the impact of both. For the fourth quarter, we expect continued strength in ARPU due to additional customer migration to other highest value rate plans, the effects of introducing pay in advance service, increasing contributions from new products, and a more favorable rate plan mix for customers in our new markets.

To illustrate the success of our higher end rate plans, consider that one of the largest U.S. carriers recently claimed to have set a record, in the number of text messages carried. On a per customer basis, Cricket customers averaged 10 times more messages per month than their customers do. And five times more than the average of the top five carriers. Which demonstrates the value of our unlimited offer. Taking these considerations into account for the fourth quarter, we expect ARPU to make a modest improvement over the third quarter, and maintain solid year-over-year improvements as well.

Looking at our customer acquisition expenses, CPGA for the quarter was just under \$177. Within our guidance of less than \$180. And including approximately \$5 attributable to costs associated with new market launch activity. As new market launches continue in the fourth quarter, we expect CPGA to remain similar to the third quarter CPGA as a result of pre and post-launch sales and marketing spending. Partially offset by the seasonal increase in customer activity.

Moving beyond our operating metrics, I would like to provide you with an update on several important initiatives that support our expected future growth and profitability. In the third quarter, we continue to add Jump Mobile distributors. In existing and new markets. Including the addition of strong regional convenience stores. We continue to expect the penetration of Jump Mobile to be in the low to mid single digits as a percentage of all customers by the end of 2006. On September 1, Cricket successfully introduced our new WAP store front, building upon our launch of the WAP portal in June. This new feature broadens our ability to offer customers additional content and applications that enrich their mobile experience. The WAP offerings compliment our brew-based Cricket clicks type offerings with the availability of both technologies, Cricket can provide a full range of 1X content offerings to all customers at all handsets.

In an effort to accelerate the penetration of these new features, on November 1, we integrated our WAP portal and store front into a new higher end \$50 service plan. This plan includes unlimited in-network calling, allowing a Cricket customer to use their phone in all Cricket markets in addition to their own home market. For the first time, the promise of unlimited will extend beyond a user's home calling area. We are also pleased to announce a new partnership with Google. Cricket will incorporate Google's search capability into our WAP portal landing page. Providing Cricket customers with the industry's leading search technology. Google will also provide a number of mobile applications and location-based services for our users. Availability of these new services will be announced at a future date. We expect all of these important content and data delivery initiatives to increase ARPU over time, and provide the necessary infrastructure to support broad-band content on our future EVDO enabled network.

Overall, we are pleased with our progress and believe we have achieved very positive results during the first three quarters. We plan to continue strengthening our position in the marketplace which can only be accomplished through the dedicated efforts of many people both inside and outside of the company who work very hard to make all we do so successful. I want to send a special thanks to our field employees, launch teams and third party retailers across the country for helping us through the transitions we have managed so successfully.

I would now like to turn the call over to Glenn.

Nov. 07. 2006 / 5:00PM, LEAP - Q3 2006 Leap Wireless International Earnings Conference Call

Glenn Umetsu - Leap Wireless International - EVP, CTO

Thank you, Al.

In the third quarter of 2006, we continued to aggressively execute on our plan to launch additional new markets on schedule and within budget while actively managing costs and quality in our existing markets. We achieved a cash cost per user of \$20.74 in the third quarter, reflecting operating costs associated with new market development of approximately \$1.61 for the quarter. We do not expect to see significant additional upward CCU pressure associated with continuing new market development activities in the fourth quarter as we realize the benefits of scale and newly-launched markets. We believe the positive contribution of El Paso, Los Cruces and Colorado Springs to adjusted OIBDA and the expected performance in Houston during the fourth quarter of 2006 validate our strategy to design new markets for efficient utilization of capital and operating expenses.

Since a large portion of our operating costs are relatively fixed, we believe that we will achieve benefits of scale in 2007, based on the substantial growth we expect in new markets. More specifically, we expect CCU to remain in the \$21 range, for the fourth quarter of 2006, with CCU beginning to decrease after the first quarter of 2007, as a result of expected continued positive results in the new markets, and an increasing number of customers. Since our last earnings call, Cricket launched service in Kansas City in early October, bringing covered POPs launched in 2006 to 14.3 million, or 72% of the 20 million new covered POPs at the high end of our plan for 2006.

We had 95% of the design sell side separate launch time, much of the work completed well before the deadline. As a result, costs were lower than planned, and customers and sales people were exuberant about the high quality, even if our network and engineering teams experienced a new level of boredom at launch. For the quarter, capital expenditures were approximately \$162 million, primarily consisting of new market build costs.

Thanks to the rapid deployment capabilities of our new market launch teams, Leap and LCW Wireless, expect to launch San Diego and Portland before the end of the year. With the upcoming launch of San Diego, we expect to operate the largest commercial deployment of distributed antenna systems in the U.S. These small unobtrusive and fiber optic fed radio installations allow us to move the launch this market forward by three to six months. While somewhat higher in capital cost, these substitutions for conventional radio cell sites are expected to pay for themselves in reduced operating expense and faster time to market.

We are pleased with the RF test results which show these systems to be very effective in permit challenged dense urban areas. We expect the addition of San Diego and Portland to put us at the high end of our guidance for launching up to 20 million covered POPs in 2006. This consistent execution and new market deployment was accomplished through high quality planning and the careful coordination of large teams of technical and sales and marketing personnel. Ensuring launch dates were reached, budgets were met, and sales goals were achieved.

All of our new markets are equipped with the latest EVDO hardware and we expect to have this capability in nearly all of our existing markets which will enable us to begin offering customers new EVDO features and services over the next few quarters. Use of the latest IP technology will allow us to remain competitive in the data service arena and we believe we are one of the more innovative wireless carriers in moving all voice traffic between markets to voice-over-IP, reinforcing our cost leadership position in the industry.

Based on the solid execution of our new market buildout plans, and EVDO upgrade of our existing network, we affirm our previous 2006 capital spending forecast of between 525 and \$585 million for 2006. We are continuing to progress on our capital spending projects within Management's expectations. Currently, we are revising requirements for the previously announced upgrade of our outsourced billing and activation system to accommodate the expected growth of the business due to our planned new Auction 66 markets, and hope to complete the upgrade by the first half of 2008.

Another effort is in the planning stages as we evaluate our coverage in existing and newly launched markets. We believe that penetration can be enhanced through the addition of incremental sell sides in some of our markets and are beginning to plan

Nov. 07. 2006 / 5:00PM, LEAP - Q3 2006 Leap Wireless International Earnings Conference Call

our disciplined engineering strategy anticipating delivery dates in 2007 and 2008. As Doug described earlier, the new spectrum we expect to obtain from Auction 66 will enable yet another phase of significant company growth and we look forward to bringing Cricket's innovative model to new markets.

Much like our initial PCS licenses, our AWS licenses are encumbered by varying numbers of existing users. We believe the spectrum clearing process for links occupied by commercial users will be consistent with prior PCS methods. More specifically, we expect the clearing process for these links to take approximately 9 to 18 months. The spectrum currently occupied by government agencies will be cleared by the government using auction proceeds.

While the location and owners of all commercial links were known prior to the auction, not all government links were disclosed to the auction bidders. For example, there were 31 classified government links to the location and operational bands of which have not yet been disclosed. Further, the current clearing estimates for the government links regardless of security classification, typically range from 12 to 36 months. We are actively working with the CTIA, FCC, and NTIA to clarify the process and timing of government clearing actions. The costs and launch timing implications of this clearing were taken into account in our business modeling and in the prices we bid for the spectrum. As a result of the work in progress, we don't yet have firm launch dates for our markets, and hope to give you a better view of our plans at our next conference call.

Relative to infrastructure equipment and handsets, we have been engaged in discussions with our vendors for over a year to facilitate their production of products compatible with the new AWS spectrum. We continue to push for pricing and product variety that will support a successful hardware ecosystem. We currently expect to launch our first AWS markets in the first half of 2008. Within the capital guidance of less than \$28 per covered cost. Leap and Denali were fortunate to be the winning bidders for spectrums at the auction that allow us to have at least 20 MHz in all existing Cricket markets. We believe the extra frequencies give us the ability to accommodate continued growth in data and voice services in the future.

I would like to close by congratulating the many people both internally at Leap and at our external vendors who have supported our very successful new market launches. We are proud of the tremendous success of our new market design strategies, the success of our launch teams and the efforts of the entire leap organization on continuous improvement in our cost structure. We eagerly anticipate applying our organization's expertise towards Leap's continued growth and execution of Auction 66 market plans.

Doug?

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

Thank you, Glenn. The strategies we have implemented are producing results. We have seen good operational progress and financial growth in our existing markets during the first three quarters of 2006, and there is no doubt that our new markets are developing well. As we look forward, we anticipate continued strengthening in the financial performance of our existing markets, which, when coupled with the steadily improving OIBDA performance from our newly-launched markets, will produce attractive further growth in the coming quarters.

The company has been active in the management of its spectrum assets. Over the last several months, the company signed agreements for the sale of several licenses not in commercial use for gross proceeds of \$22 million. In addition, our success together with our joint venture partner Denali Spectrum and Auction 66 in winning more than 180 million licensed POPs is clearly a transforming event for the Company.

While the Company has completed its participation in Auction 66 by making the necessary payments for the purchase of the licenses, on which we were the winning bidder, the timing of license transfers will depend on the FCC. Once completed, however, the Company's current portfolio of licenses, the licenses we have won in Auction 66, and the licenses owned or won by our joint ventures will allow Cricket service to be provided in up to 35 of the top 50 U.S. markets.

Nov. 07, 2006 / 5:00PM, LEAP - Q3 2006 Leap Wireless International Earnings Conference Call

Let me take a moment to review the rationale for our Auction 66 activities. We completed -- we expect to complete a 10 MHz overlay of spectrum covering most of our existing footprint. We won this spectrum through a mix of larger blocks, REAGs, and through individual market licenses called BEAs or CMAs. We believe that the success we have seen with new data services will continue and the purchase of additional spectrum in these markets will allow us to generate attractive shareholder returns over time, as further new services are introduced.

Leap and Denali also won new spectrum covering approximately 110 million net new license POPs. A large number of these licenses are located in markets that we expect to build out over time, with launches currently expected to begin in 2008. These markets meet the three criteria we've outlined in the past that served to define the characteristics of our higher performing markets including geographically attractive footprints, diverse populations and positive employment prospects. Lastly, the Company expects to consider collaboration with others on spectrum one to provide additional additional opportunities for coverage and growth while balancing the Company's financial exposure. Our plans with respect to this spectrum will evolve.

In preparing for Auction 66, the Company considered not only specific markets but also individual market frequency bands based on spectrum clearing considerations that were known at the time of the auction. We are pleased that in many cases, we won licenses and spectrum bands that are expected to have fewer clearing issues. The company expects to have definitive plans for the time phrase for the first phase of the Auction 66 launches during the first quarter of 2000 search. This assumes of course that the federal government has provided a complete picture of spectrum clearing considerations by early 2007.

Overall, we are pleased with the outcome of Auction 66, and please that the prices we paid demonstrate our disciplined approach to expansion. The \$0.45 per megahertz POP paid by Leap and Denali Spectrum combined was the lowest per POP price of any of the major bidders in the auction. We achieved this low cost outcome even though we were the successful bidders on some of the most competitive markets in the auction. Another meaningful comparison regarding the value creating potential of our auction 66 License purchases is the Company paid about 40% of what we paid for the Auction 58 licenses on a per megahertz POP basis.

The Company has announced its initial outline for a fully-funded plan to build out launch up to 24 million of the new market POPs we won during the auction, which represents roughly half of the new covered POPs the Company currently anticipates building as a result of Auction 66 over time. This expansion is in addition to our current footprint expansion to approximately 50 million covered POPs and the data services upgrades to our networks which we previously disclosed.

Once completed, this phase of Auction 66 development will bring the Company to approximately 75 million covered POPs with network hardware capable of providing voice and data services with the EVDO rev A. We believe there will be limited launch activity associated with these additional new Auction 66 markets prior to 2008 and expect to provide an update at our next conference call.

The Company has completed several capital market activities with a positive and clearly successful outcome. As Amin discussed today, the business had significant liquidity with more than \$550 million in unrestricted cash, cash equivalents and short-term investments at the end of October. This liquidity and the expected cash flow from our operations provide the basis for the company's belief that it has adequate funding to expand its coverage to approximately 75 million total covered POPs as we've outlined.

As the Company completes the detailed planning associated with Auction 66, we may accelerate our initial launch estimates or expand our planned launch activities beyond the initial phase, and if we do so, additional financing may become necessary. Before we close, the company provided updated guidance today for the remainder of 2006 and our initial outlook for the full year 2007. The Company anticipates total adjusted OIBDA for the fourth quarter to be between 58 and \$65 million, including 22 to \$27 million of negative contribution from the new market activities. This forecast includes the estimated effect of recently increased pricing from Mexico's implementation of calling card paying to mobile handset.

Nov. 07. 2006 / 5:00PM, LEAP - Q3 2006 Leap Wireless International Earnings Conference Call

We expect full year adjusted OIBDA two be between 276 and \$283 million for our consolidated business and existing market adjusted OIBDA between 347 and \$354 million. An increase of more than 25% from the \$275 million of consolidated adjusted OIBDA for the full year of 2005.

Today, the company has also provided a first look at our expected 2007 financial performance. The company announced that full-year adjusted OIBDA is expected to be between 380 and \$450 million. During the first half of 2007, we expect to continue reporting on our progress in a similar basis as this year, with the effect of new market launches and early progress highlighted within our consolidated business results. Additionally, our guidance for 2007 does not include any significant costs associated with launches of Auction 66 markets. This outlook may be adjusted as we complete our detailed planning process.

The company also provided the capital expenditures guidance for 2007, of 240 to \$310 million. Not including any significant capital costs or capitalized interests associated with the development of the new Auction 66 markets. This forecast does, however, include the costs of operating, maintaining, and growing our existing markets. The completion of the remaining build activities in our recent launch markets, and the buildout of an incremental 3 to 4 million new covered POPs which we expect to launch next year. Our 2007 capital guidance assumes the Company will perform near the high end of 2006 planned capital spending and we expect to adjust 2007 guidance should we spend significantly more or less than 2006.

In closing, we are pleased with our progress and the Company remains focused on executing on our vision. We have continued to improve our position through stronger operating performance, new market launches, and our participation in Auction 66 and recent capital market activities. Our third quarter results demonstrate the outstanding execution delivered on a number of key fronts. Looking forward, I believe that the Company is building a bright future and the steps we've taken allow the business to be in a strong position.

As always, I encourage investors to be pragmatic as our business is seasonal, and many of the actions improvements that we are pursuing will need adequate time to develop to their appropriate outcome. Our success as a result of our customer's appreciation and the value we provide and their loyalty, which we would not have earned without the continuing commitment of our employees. I'm proud of the performance of the teams delivered across the Company. They're the driving force behind our success and their accomplishments are truly appreciated. To all of our employees, and to Amin, Al, and Glenn, I want to say thank you for a job well done.

I will now turn the call over to Jim for the Q&A portion.

Jim Seines - *Leap Wireless International - Director IR*

Thank you, Doug. Melanie, would you please come back on line to review the instructions and open the call for Q and A?

QUESTIONS AND ANSWERS

Operator

Yes, sir. [OPERATOR INSTRUCTIONS]. And the first question comes from the line of Michael Rollins with Citigroup. Please proceed.

Michael Rollins - *Citigroup - Analyst*

Hi, good afternoon.

Nov. 07. 2006 / 5:00PM, LEAP - Q3 2006 Leap Wireless International Earnings Conference Call

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

How are you today, Mike?

Michael Rollins - *Citigroup - Analyst*

Good. Good. Yourself?

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

Good. Thank you.

Michael Rollins - *Citigroup - Analyst*

I was just hoping to ask a couple of questions. The first one was just with respect to a little bit more detail than what's going on with the Jump subscriber base. If you would talk a little bit more about the economics of it becoming a bigger part of your base in terms of some of the key metrics. And then also it looked like in the core markets, maybe some expenses picked up a little bit. Looking at it relative to the second quarter. And I was wondering if you could talk a little bit more about that as well. Thanks.

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

Okay. I may need you to expand the second question. We went through. So while I answer the first one, give you a chance to come back and expand the second one a little bit. On the Jump subscriber base, AI outlined that we expect by the end of this year, we will see the low to mid single digit penetration on that. We are seeing good uptake in the convenience store and some of the distribution channels that we brought out, but as we talked about the last time, the product eventually will run its course, and really see where it goes when we get in the big box retailers. We continue to pursue that when we have an announcement around that or made progress in that area, we will update you, so I would stay tuned on that.

And Mike, do you want to come back a little bit more on the core market?

Michael Rollins - *Citigroup - Analyst*

Sure. I was just wondering if you look at some of the cash costs per user numbers that you threw out it looks like the costs picked up a little bit in the core markets and I was wondering if you could talk a little bit more about some of the specific impacts, is it network related to data services or was it customer care related, just curious for a couple of those different items.

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

First off, CCU, year-over-year is down, so Glenn went through the impact of the new markets and then if you compare the year-over-year CCU, you will see that is down. We do have volume impacts that you see, usage patterns change and some of the upticks on some of the services. And remember, those prices, or those CCU expenses are essentially flat, although ARPU is up over \$4. And while a little bit of that ARPU is attributed to the change to PIA, about 25% of that ARPU uptick is related to the change of -- to PIA, \$3 of that ARPU is as a result of people taking higher value service plans, which include things like the data services, and such, so what we're seeing is the business able to add new services, and through cost reduction efforts, be able to achieve similar year-over-year CCU.

The last piece that we had said -- we do see the initial signs again this quarter on some of the initial benefits of scale coming. An example, we highlighted again during the call, was on the G&A line of the business. But we think that you will really see

Nov. 07. 2006 / 5:00PM, LEAP - Q3 2006 Leap Wireless International Earnings Conference Call

those benefits kick in towards the middle of '07. As we get through the launch program, and we get a chance to bring this to bear, so we think we're doing pretty well. We think we're also doing pretty well on our launch costs as well.

Michael Rollins - Citigroup - Analyst

Great. Thank you very much.

Operator

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

Phil Cusick - Bear Stearns - Analyst

Hi, guys. Thanks for taking me question.

Doug Hutcheson - Leap Wireless International - President, CEO

Hey, Phil, how are you?

Phil Cusick - Bear Stearns - Analyst

I'm good. Thanks. I want to talk a little more about Jump. You said low to mid single digits, and I think that as a percentage of the customer base by the end of the year, is that correct?

Doug Hutcheson - Leap Wireless International - President, CEO

Yes, it is.

Phil Cusick - Bear Stearns - Analyst

Okay. And as we think about the new market dilution, that was a negative 22 to 27 in the fourth quarter, right?

Doug Hutcheson - Leap Wireless International - President, CEO

That was the guidance for the fourth quarter, yes.

Phil Cusick - Bear Stearns - Analyst

Okay. And so next year, as I think about things, it really looks like it is ramping up pretty quickly, you said Houston should be positive fairly soon. I'm trying to figure out what margins could really do next year in these new markets. It looks like they could really ramp through the year. How should I be thinking about that?

Nov. 07. 2006 / 5:00PM, LEAP - Q3 2006 Leap Wireless International Earnings Conference Call

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

The margins in the new markets, if you -- Jim made an effort to, in the preamble to first off point out that we carry all of the corporate load and when that is certainly more than G&A, it is a lot of the other supporting services, such as IT, and other expenses, are carried on the existing markets, and essentially, this year, those existing markets will perform about 40% margins. And if you look at the new markets, they have substantially less of the overhead expenses, and so we expect to see them turn OIBDA break-even, certainly within 12 months, but the guidance that we gave you as an example on Houston is about six months, two quarters, roughly. Give or take a month.

So we're seeing progress on breaking the new markets, break-even both in the smaller markets like El Paso and Colorado Springs, and we're also showing now that it is happening in our larger markets. So what you will see is as those turn, you should see those margins build very attractively. I think it would be logical to assume over several quarters, or several years, that if they were to be looked at you would see them move up higher margins than what we see as what we would expect to see in those new markets.

So again, we see that building next year. I think we see in our capital -- in our OIBDA guidance for next year, we see a nice continuing build on our existing business. It built this year over 25%. We think we will see it continue to build next year. And then the continued attractive performance starting to kick in more and more from those new markets we have launched.

Phil Cusick - *Bear Stearns - Analyst*

And finally, as you think about the AWS auction, you mentioned some of the military stuff, is the commercial situation, does that look like you expected in terms of clearing spectrum?

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

Yes, the commercial stuff was well disclosed in advance of the auction. As was -- I'm sorry, that there was some uncertainty around which bands and some of the government stuff, so I don't think we have any new information from the company. There's been a lot of people who have been interested about spectrum clearing. And what we wanted to do is get people a little bit more depth on that.

We will wait to see where the classified links are, if we're even impacted by those, I think. Or to what degree we are. And we will let those roll out. And figure out how to adjust to them. I think we have an attractive portfolio and we will select the best most ideal markets to get on with the 24 million launch plan.

Phil Cusick - *Bear Stearns - Analyst*

Thanks.

Operator

Your next question comes from the line of Romeo Reyes with Jefferies. Please proceed.

Romeo Reyes - *Jefferies & Co - Analyst*

Hello there.

Nov. 07. 2006 / 5:00PM, LEAP - Q3 2006 Leap Wireless International Earnings Conference Call

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

Hey, Romeo, how are you?

Romeo Reyes - *Jefferies & Co - Analyst*

Hi, guys. How are you?

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

Good, thanks.

Romeo Reyes - *Jefferies & Co - Analyst*

I have a whole litany of questions. I hope I can get some of them answered hopefully. On the CapEx, the '07 guidance that you've laid out, should we assume that 75 to 100 million of that is related to the -- I guess the 3 to 4 million urban POPs in the Carolinas? That's the first question. The second question is just a clarification.

Toledo Sandusky for Q2 was not a discontinued op, right? So the revenue I guess roughly \$4 million of revenue and maybe \$1.5 million of EBITDA, we should do -- to do a comparison we should take that out from the Q2 numbers. That is sort of the second question. And then the last question, again, on CapEx, how much -- Glenn mentioned that most of the CapEx, 80% is in the last six months of the buildout of the market, and how much auction-related of CapEx if any will you have in 2007? Thanks.

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

Sure. So we highlighted our '07 guidance has three components to it. The first is we're going to launch approximately \$4 million, let's use \$4 million POP so that is about \$100 million. That's the finish, the completion of the 23 million POPs that we talked about. The the second component of that is there will be some spending to finish launching or to finish building out markets that have been launched through the course of this year. We typically build out, at launch, about 80 to 90% of the sites, and after the market is up and running, and we've seen where customer uptake is, we go in and strategically place the last sites to get the optimal capital efficiency. And then the last piece is that operating capital, so that's the maintenance, the growth, and those components typically run between 11 and 13% of revenues.

So I think you see a capital plan for 2007 that's pretty tight with that, and we would expect to continue to see some good progress. The other piece that Amin highlighted, that while we'll have to get into some of the more details of how the numbers rolled through relative to capitalized interest and such. The company essentially expects to be near or perhaps a little better than levered free cash flow next year, which I think is a real positive development and it shows the leverage that we're getting out of things, as we're both launching markets, and bringing these new markets up and profitability in, and able to operate on this expansion, the 50 million covered POPs we're able to operate the business so quickly on a positive free cash flow or near, I think near free cash flow basis.

Next piece, on Toledo/Sandusky, while we didn't disclose the specifics on it, certainly there was some revenue and some margin contribution associated with those, and it would appropriate to make an estimate if you were going to compare those two quarters, we did not exclude from the second quarter meeting. It was in those numbers and in the third quarter, it was not included.

The last piece is what's in the CapEx guidance, certainly the Company has the spending associated with planning and normal RF activities for Auction 66 and the guidance that we issued. That is not a large number, but like any effort, we're out now beginning to work with our different suppliers, to see what we can do to optimize not only the costs involved with this, but the

Nov. 07. 2006 / 5:00PM, LEAP - Q3 2006 Leap Wireless International Earnings Conference Call

launch timing. And so we currently have put out a plan that assumes very little, if any, launch activity that occurs in 2008, and if it was, if we were to be successful, and optimizing that, and it made good sense from creating shareholder value, we were able to advance those launch plans, what we want to highlight is that would be an appropriate decision we would come back and talk to you. And let the market know on that.

The guidance that we provided does not assume any markets, meaningful markets launch in 2008. They would -- or 2007. Excuse me. They would begin launching in 2008. And roll out between 2008 and 2009. Does that get your question Romeo?

Romeo Reyes - *Jefferies & Co - Analyst*

Yes, that takes care of that. So not much AWS CapEx. So based on what you just said, it sounds like around half of your CapEx, if you use \$300 million or so, half of the CapEx is related to that operating CapEx, and then the other half would be sort of one-time construction and the completion of the initial launches from 2006.

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

Well, roughly 11 to 13% of revenues are associated with that operating CapEx. So -- and that is the number that we're pretty pleased with, that is an industry-leading number. And then the remaining is associated with buildout activities, and such.

Romeo Reyes - *Jefferies & Co - Analyst*

Okay. Now, with respect to the CPGA, you mentioned that the CPGA, there were a couple of reasons why the CPGA was \$176, including your move to -- from the FPA to PIA and I think on the ARPU side you quantified about a dollar of the improvement was related to a move to PIA. On the CPGA side, what would that -- what is the impact of moving from the FPA to PIA?

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

Well, we -- it is less than one month, just a little -- it will be less than one month worth of service revenue.

Romeo Reyes - *Jefferies & Co - Analyst*

It is the margin of that one month?

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

Yes.

Romeo Reyes - *Jefferies & Co - Analyst*

Okay.

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

And so if you were to adjust and it also eliminates activation fees if were you to -- AI disclosed in the CPGA discussion, about \$5 was related to launch and last year's CPGA was 142 for the second quarter. And if you look at the 171 that we had this quarter, what you see is in that quarter, there was about a \$30 difference, and that gives you an idea when we say last -- what a number

Nov. 07. 2006 / 5:00PM, LEAP - Q3 2006 Leap Wireless International Earnings Conference Call

might look like. And what we would expect to see is ARPU, you would see ARPU come up over time, it takes about a year for the full benefit of the ARPU improvement relative to PIA to build into the number. You get more at the beginning, this quarter we got about a \$1. And it works through. Now, remember that is purely metrics. From a cash flow standpoint, this is cash flow neutral for us.

Romeo Reyes - *Jefferies & Co - Analyst*

That's right.

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

So you're watching how it comes into the metrics. Not -- and so that's one of the reasons that we encourage people to, you know -- metrics have an important role, but not the only role, from a cash flow standpoint, this all works out, and we just keep going ahead. We're pleased with the results. And believe the change to PIA will over time -- and remember, that's getting a larger and larger percentage of your customers on the PIA, rate plan, the pay in advance rate plan, will have benefits to the business, so we're feeling pretty good about it.

Romeo Reyes - *Jefferies & Co - Analyst*

Great job. Thank you very much.

Operator

The next call comes from the line of Kevin Coyne with Goldman Sachs. Please proceed.

Kevin Coyne - *Goldman Sachs - Analyst*

Hi. Thank you for taking my call. Just a couple of quick questions. Just if we look at net adds in the core markets I believe it was about 5,000 and if we compare that back to third quarter of last year, it was about 23,000. Which may have had the benefit from Fresno. But I guess my question is, was there anything specific in the core markets, let's say it was churn a little higher, and maybe you can add some color on that and related to that, as we head into the fourth quarter, obviously you should get the seasonal benefit, last year, you had about 45,000 net adds in the core, should we expect it to go up into the 40 range of your -- about 160 to 260 guidance for the fourth quarter?

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

Let's see if I can catch all of those. The first is the nets in the core were higher than last year's net existing business compared, so third quarter is seasonally always our slowest quarter. And we talk about it. I think I want to encourage people, we put an awful lot of energy in the first quarter when it is our strongest reminding people that it is a seasonal business, and that the third quarter will come. So we have worked our way through that.

Churn, we would have liked to have seen churn, we would like to see every quarter churn lower and we work relentlessly at it and I think we would have liked to have seen churn a little bit less. All I think did a good job of describing that the principal reason for that, is early in the quarter, we saw a fair amount of volatility, both on de-acs and reactivations, and remember if a company reacts, he comes back to our churn calculation, they reactivated, not as a new customer but as a reactivating customer. So we saw the volatility there. I don't think that is a permanent situation. I think that is a -- as we highlighted in our conference

Nov. 07. 2006 / 5:00PM, LEAP - Q3 2006 Leap Wireless International Earnings Conference Call

call, we thought we were going to -- in our last conference call, we thought we would see that and we continue to feel fine with where we're at.

Clearly, we want -- we believe that the 25% year-over-year OIBDA growth that we're seeing indicates that there is growth over the last year, and we think that growth is in the future, and we would like to see it continue to add nets and we think they're there as well as continued ARPU growth. And in the fourth quarter, we haven't provided a breakout for what we think the nets will be in the -- between the new markets and the existing markets, clearly we would expect a more dominant piece to be in the new markets, but we will -- we have seen every year previously, and we have no reason to believe we won't see it again this year, the normal seasonal cycle that you see the nets come back up in the fourth quarter, on our existing markets, and again, peak in the first quarter.

Kevin Coyne - *Goldman Sachs - Analyst*

Okay. And if I could just squeeze in one more question. Just obviously, ARPU is very strong in this quarter. I was wondering if you could just provide a little color around that, such as let's say the number of -- the percentage of subscribers taking the \$45 plan, or let's say the percentage of the subscriber base, let's say, taking the \$5 additional add-on features.

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

Sure. We have seen -- we have had a good year from what we've seen, and ARPU growth. So we had about -- about \$3 year to date of lift not attributed to PIA, and again, most of that \$3 we were able to move down to the bottom line. That -- over 60% of our customers are on the \$45 rate plan at this point in our existing markets. And the uptake, as AI talked about, the uptake at our new markets is actually higher than that. So that's why we see good continuing contribution also in the new markets. The thing that we announced on November 1st that's really exciting is we embedded into the \$50 rate plan. Now, the WAP services. And so in the second quarter, we launched that on a limited set, basically one handset, it was another handset that got a little bit of activity on it.

We announced -- or we launched that WAP-based product during the third quarter. We finished building out the store front, and put in the rest of the business plan together. We saw real good attractive results from it. We've also seen attractive margins out of that. We folded that in on November 1 into a \$50 rate plan along with the larger calling area. To accelerate the adoption of that, we think we see good customer acceptance of that. We expect to continue to see that.

So we think we will see that rate plan provides us a product offering that we think customers are likely to adopt. And we would expect to see that provide an engine for further ARPU improvements. And again, that WAP product has attractive margins for us.

Kevin Coyne - *Goldman Sachs - Analyst*

Great. Thank you.

Operator

Your next question comes from the line of Tom Lee with J.P. Morgan. Please proceed.

Tom Lee - *JPMorgan - Analyst*

Hi, guys.

Nov. 07. 2006 / 5:00PM, LEAP - Q3 2006 Leap Wireless International Earnings Conference Call

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

Hi, Tom.

Tom Lee - *JPMorgan - Analyst*

How are you?

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

We're well. Thank you. How are you?

Tom Lee - *JPMorgan - Analyst*

Great. I'm sorry, I'm on a cell phone and it is not Cricket quality. So if it is garbled, I apologize. But I have two questions. One, Glenn, you made a very interesting comment about the distributed antennas. It is the first time I heard a wireless company talk about it. And I was very curious, you know, if you could tell us what -- what are some of the engineering reasons for using a distributor antenna? Do you expect to actually result in -- how are you going to result in lower operating costs, and whether or not you work for the tower company on that.

And my second question actually, I want to get a better understanding of sort of the cumulative CapEx total between '06 and '07. And I understand that CapEx in '06 is 525 to 585. And Doug, you mentioned that the '07 is affected by kind of what range you do in '06. So on the 240 to 310, does that mean the total for that two-year period should be somewhere between, 765 and almost 800 million? Or could you give me a better idea, sort of narrow that two-year CapEx number between '06, '07? Thanks.

Glenn Umetsu - *Leap Wireless International - EVP, CTO*

You bet. Well, let me first handle your distributor antennas, antenna systems question first, Tom. When we looked at this one, for San Diego, it to us made a lot of sense. The prices on the capital side are a little bit on the high side, but we believe that because we could see the savings in moving that launch forward, due to the many, many challenging permitting problems that we had in the San Diego area, it did prove out, and the operating costs were lower than if we ran them on a conventional cell sites, Tom, so that was the rationale for doing that. We didn't work through an established tower provider, but it was a new vendor on that particular one. So we're very pleased with the results thus far, since it did allow us to launch much earlier than planned.

Tom Lee - *JPMorgan - Analyst*

Okay. But if I could follow-up. Timing, the timing advantage, and I know that with the distributed system like that, you're going to end up with lower height structures. Are you going to still have the same network management and quality service with the structure? Thanks.

Glenn Umetsu - *Leap Wireless International - EVP, CTO*

Yes, we didn't see any degradation, and in fact, due to the fact that there were actually more of these units around there, typical trade-off, we had hoped to see was about three of these nodes per conventional cell site, so there are -- you could visualize this as being more antenna structures, throughout the area, so even though they were at a lower height, they provided much better coverage for us, and great in-building penetration at the same time.

Nov. 07. 2006 / 5:00PM, LEAP - Q3 2006 Leap Wireless International Earnings Conference Call

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

Okay. And then on the CapEx, I think I can walk people through this in a pretty simple way. Are you there, Tom?

Tom Lee - *JPMorgan - Analyst*

Yes, I'm here.

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

In a pretty simple way. The Company's guidance has two key components out on it. So the first is what you will see is if you take 23 million covered POPs which is the new markets that we've launched, the footprint optimization, and you multiply that by the \$28, and you take 11 to 13% of revenues over those two years, you will see that the company is -- is ahead of budget, meaning it is beating -- beating the guidance that we've given. Now, we haven't given revenue guidance for next year, but based on our current plans, you will see that the Company is launching markets, and adding in data services, and maintaining our networks, and we are at or ahead of what we've told people.

So that is the framework between the two years. And I think we've said it consistently, and are in a position to again point out that we're operating at or ahead of the guidance that we've laid out for the last couple of years. The total guidance range implied between the numbers that we've given year-over-year is between 765 and 895. That's just doing the math on the low numbers and the high numbers. But -- and the variability on that will be revenues and how the new customers come on board. So there is a little built of variation on that will occur on that. So that piece is -- on the 240 to 310, excuse me, let me be clear.

Clearly, we -- and I said it during the call, and I want to reiterate, that we're expecting in our guidance for next year that we will spend most of the -- we will spend towards the high end of this year's guidance. If we were to spend at the low end, that is just a timing issue from when we receive final equipment or things. It is not a real change in the company's outlook. And we would adjust next year's guidance to reflect that timing issue. So you would see this year, us tend towards being at the lower end and then we would make -- catch that up next year. Does that help explain, Tom?

Tom Lee - *JPMorgan - Analyst*

It does. It does. Thank you.

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

So I think the company is on or ahead of what we've been telling people, as we're getting towards the later phases of a very broad and very large buildout program, and I think the team has done a good job.

Tom Lee - *JPMorgan - Analyst*

Got it. Thank you. That does help a lot. Thanks.

Operator

Your next question comes from the line of Ric Prentiss with Raymond James. Please proceed.

Nov. 07. 2006 / 5:00PM, LEAP - Q3 2006 Leap Wireless International Earnings Conference Call

Ric Prentiss - *Raymond James - Analyst*

Thanks. Good evening, guys.

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

Hey, Rick, how are you?

Ric Prentiss - *Raymond James - Analyst*

Very well, thanks. And you?

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

Good, thanks.

Ric Prentiss - *Raymond James - Analyst*

Good. My question, I am going to circle on the Auction 66 stuff that you did a good job explaining what your plans are right now. Can you talk about the path to getting equipment available? What is the gating factor to vendors making equipment? Is it falling back on Qualcomm to give the chips? The second question there is, when you look at having the extra 10 MHz on top of your existing market, how important will it be to have dual mode handsets as well, or dual band handsets, to roll that out. And timing, as far as receiving both the infrastructure and the handsets.

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

Sure. Glenn talked about that we've been at this for a year. And so one piece is before we made a decision to buy any spectrum, we were pretty sure about what timing was going to look like for the delivery of the equipment and the handsets. And the equipment in both cases principally, Qualcomm principally is the A6 supplier for CDMA systems and is contingent on them delivering those chips. Those chips have been announced by Qualcomm, they were announced actually before the auction, they put out what chip series would have that in it, and that is a chip series that has not only the WS option on it, but it also has the PTS bands and the 800 megahertz bands, so every chip set that is based on a Qualcomm chip handset is going to have the silicon in it, to operate on all three bands, and it may have silicon for other -- or may have other bands in it, as well.

And that was an important factor for us to validate before we went into the auction. The manufacturers are committed to delivering not only infrastructure but handsets. I would like to see that commitment delivered on signed contracts, which clearly we're in the process of working through, and we will get those in place. And that will allow us to solidify our final launch dates, but in no cases have we heard any gating factors at this point that cause us to be concerned that there is going to be a lack of silicon, or a lack of both infrastructure and handsets. And those handsets will work well in our existing markets on the dual bands, and in the new markets.

Ric Prentiss - *Raymond James - Analyst*

Okay. And then on a cost side, you talked about the \$28 per POP that you saw over the 23 million POPs that you built out now, are you thinking that there is not really any significant difference in the CapEx per POP basis as you look out to the new markets with the dual frequencies or tri-frequency, et cetera?

Nov. 07. 2006 / 5:00PM, LEAP - Q3 2006 Leap Wireless International Earnings Conference Call

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

Well with we will feel better after we say that we have signed contracts. So first off, we've had a lot of discussions and want to continue to work our way through things but wouldn't have bought shows and buy spectrum without being reasonably assured about where our costs were. The \$28 a covered POP I do want to flag that I used on that, also included the data services upgrade to our existing network, so it is actually -- if you look at it, it has been -- what we've been saying is \$28 a covered POP or less, is where our guidance is, just as we had managed to bring in the new markets for \$28 or less, because we funded an EVDO rev A hardware ready rollout on all of our existing or almost all of our existing marks as well on that. So I think in the guidance, there is a consideration not only for if there is any infrastructure cost differences but also our guidance includes what we expect typical clearing costs to be, as well.

Ric Prentiss - *Raymond James - Analyst*

Makes sense. Great. Good luck, guys.

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

Thank you.

Operator

Your next question comes from the line of Sandy Liang with Bear Stearns. Please proceed.

Sandy Liang - *Bear Stearns - Analyst*

Hi. You guys mentioned that fuel prices would introduce risk in deactivations. I was wondering first how does the company draw the conclusion and is it specifically that fuel prices are related with deactivations and if so you were you tracking this regionally or aggregate. And I wasn't quite clear of the effect in the third quarter, was that positive because fuel prices were coming down in the third quarter? Or were you comparing to last year? And then finally, why was core customer growth lower than it was a year ago? Thanks.

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

All right. I think I answered the third one already. But let me take a shot at it. The same core market growth actually, if you adjust it for Fresno, was actually higher, it actually did a little better than last year. But the question, the point on that was a little. Not a lot. And what we also disclosed is it is a seasonal business. And we typically see our higher customer growth in the fourth and first quarter, and lower customer growth in the second and the third quarter.

Sandy Liang - *Bear Stearns - Analyst*

So Fresno accounted for 18,000 deactivations?

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

18,000 deactivations? I thought we were talking customer growth and customer growth last year was 23,000.

Nov. 07. 2006 / 5:00PM, LEAP - Q3 2006 Leap Wireless International Earnings Conference Call

Sandy Liang - *Bear Stearns - Analyst*

Right.

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

Fresno launched in the third quarter last year.

Sandy Liang - *Bear Stearns - Analyst*

Oh, I see. Okay.

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

So I think -- you know, we believe the existing businesses have lots of growth ahead of them.

Sandy Liang - *Bear Stearns - Analyst*

Okay.

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

So we're not -- I mean we're pleased with where we're at. We would have liked to have seen stronger growth in the third quarter. But we think we're fine. We're going to keep going. What we did see, I want to remind everybody, is \$4 of ARPU growth and \$3 of that moved to the bottom line, so I think the business is doing pretty well at growing in our existing markets.

Fuel price. I want to pull people back to something that we said in the second quarter. We have been watching the business see fluctuations with fuel prices, for several trips, now, this isn't the first time, and Al and I have looked pretty hard at this, and we see changes in performance, particularly on the spikes up, last year, as a result of -- or last year, we also highlighted that, as you saw some of the hurricane effects, as an example. And we worked you through that.

And in the second quarter of this year, we added more detail, because what we talked about in our conference call there, was that we now saw segment-specific areas, so it wasn't broad-based, it is segment-specific, we haven't disclosed what those segments are, but because of the data systems that we have, and the ability to watch customer behavior, we can get a pretty clear idea of where that -- where those are. And what customers are impacted.

Our way of running the business, in light of that, is when growth -- when a customer base is affected by that, we pull back and wait, until they have disposable income and then we step back in. That's just what we do. And so we did that late in the second quarter. Those fuel prices stayed higher during the first part of the third quarter as well. And then began to ramp back down. And then we stepped back in when we thought customers would have more disposable income. That's the way we run it. We think that's the right way to run it. We certainly have the data to do that. And we think that that is an appropriate judgment to look at it, and it is probably the most efficient way to run our business. And it leads to the year-over-year 25-plus percent increases in existing market OIBDA that we're seeing.

Sandy Liang - *Bear Stearns - Analyst*

Okay. So in theory, excuse me, I guess as we have been talking to investors about your new issue, we have had a debate on whether your business is more cyclical or less cyclical than traditional wireless. And we've looked at it as being land line

Nov. 07. 2006 / 5:00PM, LEAP - Q3 2006 Leap Wireless International Earnings Conference Call

replacement and land line replacement, like land lines themselves are not very cyclical. So I was wondering if you could maybe comment on that.

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

Oh, sure. Well, we've been consistent, and I will just use fuel prices. Clearly, our customers, our existing customers show impacts from volatility and economics. I mean that is the nature of the business. Rather than make pretense that we don't live in the macro environment that we're in, we actually do, and we adjust and we run our business, on the basis of how that occurs, and we try and adjust ourselves. If we were to get into something that was cyclical, though, there is two pieces that people need to keep in mind.

The first is yes, we may see some customers deactivate a little bit quicker, in a given quarter, or whatever. We've seen that previously, and we run our business knowledgeable of that factor. We manage our cost structure to make sure that we're -- we generate attractive near 40% margins. Even though we're supplying twice the product on 20% less ARPU. So we manage all of that. The question that isn't as clear, that is likely to occur in that situation, though, is who comes down, as a result of them trying to get at the value.

If you look at our \$45 rate plan, that typically compares to rate plans that might cost 20, 15, \$20 more. You look at our \$50 rate plan, that might even be another 10 or \$15 higher than that. And for those customers that want those services, we provide a lot of value, and while we have to wait for contracts to move through, or different pieces on it, we don't -- we think we do fine on that. Would we have to make adjustments? Yes. Would we try and be thoughtful of it? Yes. But we think the business would get through the cycle like that. And we're excited about our prospects.

Sandy Liang - *Bear Stearns - Analyst*

Okay. That's helpful. Thank you.

Operator

Our next question comes from the line of Chris Larsen with Credit Suisse. Please proceed.

Chris Larsen - *Credit Suisse - Analyst*

Good evening, Doug. A lot of questions have already been answered. But you didn't talk plans maybe beyond '08, maybe it is a lot early to talk about that, but you've got a lot of new markets that you acquired in '06. What are your early takes? Is it just 25 million or so are really buildable? Or could we, maybe in '08, we keep the growth engine going by launching another group of markets at that time?

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

Sure. Well, we think the growth engine will keep going first off with or without launching additional new markets. I mean again we're growing in our existing business, and we see lots of growth in these two additional waves of markets. In my later section I talked about two things, which the first is the 24 million POPs represents approximately half of the POPs that we might want to look at out of the initial purchase of spectrum.

And at this point, the company has been pretty thoughtful and disciplined and I would expect we would get into the 4 million, get -- 24 million, continue to watch results and then review where we were at, based on having results and a validation for what we were doing, to look at whether or not we would expand and start to grab more of those potential POPs that we have. The

Nov. 07. 2006 / 5:00PM, LEAP - Q3 2006 Leap Wireless International Earnings Conference Call

other piece that I also talked about is the business has shown a track record and would expect to continue to collaborate on some of the other spectrum, and we will update you as that evolves. So I think there is a couple of post the 75 million covered POP interesting growth prospects that we will take a look at.

Chris Larsen - *Credit Suisse - Analyst*

Thanks a lot.

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

Thank you. Any other questions, Chris?

Chris Larsen - *Credit Suisse - Analyst*

No, I'm all set. A lot of information today. Thanks.

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

Thank you.

Operator

Our next question comes from the line of Simon Flannery with Morgan Stanley. Please proceed.

Simon Flannery - *Morgan Stanley - Analyst*

Thank you very much. Good evening.

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

Hello there. Hi, Simon. How are you?

Simon Flannery - *Morgan Stanley - Analyst*

I'm well, thanks. How are you doing? Could you give us a little more color on some of the new markets you talked about Houston tracking very nicely in terms of profitability. Is there any big surprise, any big variation, any change in sort of competitive behavior? And if you have data on where your customers are coming from, is there any change in the mix from post-paid, pre-paid, from wire line, and where exactly the customers are coming from? Thanks a lot.

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

Sure. Well, I think we are pleased overall with how all of the markets are doing. Each market has its own unique set of characteristics. And we expected that. Not all markets penetrate on the same curves. And I would be -- I would caution investors to be careful, because the fact that one market penetrates very quickly may not necessarily mean it has the longest long-term value that the penetration and the value is built over several years, it is not built over the first three or four months and what

Nov. 07. 2006 / 5:00PM, LEAP - Q3 2006 Leap Wireless International Earnings Conference Call

we see is trend lines that look pretty good to us. I think we see nice competitive uptake -- or nice up take across all of our markets. And we will continue to work to drive more on that. So I think first off, the color is that we're doing good.

I think what I want to point out is I think we're very comfortable that the launches and what we're seeing are progressing well. The next piece on competition, we're in a drop dead competitive industry. We have seen a variety of different competitive moves, not only in new markets, but across all of our business. We see changes not only in product offerings, but we see changes in spiffs, the different amounts somebody might pay in an assisted sale channel, which we generally are less active in. What we're pleased about, is we have seen a lot of nice validation for the premiere store strategy which reduces a lot of that impact for us, on some of those channels, and we've been each more pleased with the results that we continue to see, as that channel ramps up to speed, and drives things ahead. And we're looking forward to seeing how it will perform during the holidays.

The last piece is we periodically look at where our customers are coming from. And the overriding piece that hasn't changed is about half our customers are new to wireless, and about half are attracted from customers that currently have wireless service. What is interesting about that is that ratio has changed over time, it used to be about 70% new to wireless, and so our ability, the services and the products, and the things that we had done is actually enhanced the Company's competitive position, to be able to attract customers not only new to the segment, but also customers that are within the segment as well. So we will continue to drive additional product services, features, footprints, and clusters and look forward to driving ahead.

Simon Flannery - Morgan Stanley - Analyst

And any sense of pre-paid versus post-paid for that half?

Doug Hutcheson - Leap Wireless International - President, CEO

I think we attract customers from both segments. And we haven't released specifics about which segment we attract more from.

Simon Flannery - Morgan Stanley - Analyst

Okay. That's very helpful. Thank you.

Operator

Our next question comes from the line of David Barden with Banc of America Securities. Please proceed.

David Barden - Banc of America - Analyst

Hi, guys. Congratulations on your stamina so far.

Doug Hutcheson - Leap Wireless International - President, CEO

Thank you. And congratulations for your patience.

David Barden - Banc of America - Analyst

Thank you very much. We will just hold an analyst day somewhere warm.

Nov. 07. 2006 / 5:00PM, LEAP - Q3 2006 Leap Wireless International Earnings Conference Call

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

Pretty nice here.

David Barden - *Banc of America - Analyst*

I will take that as an invitation.

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

Come join us as our San Diego launch.

David Barden - *Banc of America - Analyst*

Sounds good. I wanted to ask, just two questions. One was, you know, if you would be willing to share kind of what penetration level the Colorado Springs and Las Cruces markets were reaching break even and next just as we are all thinking about the new market development, and also looking forward to the U.S. markets, you know, the value is as much part of the ramp in the growth rate as going to be where they ultimately top out in terms of penetration, and we're tempted to look at the original markets, and the penetration in those markets, and as being a representative of where the new markets are going to go.

And but there hasn't been a lot of headway in those markets of late. Probably because you're focused on all the new markets. Could you talk a little bit about how you think about where the upside is and the original markets, and are there particular markets that are maybe more representative of the ultimate penetration you can reach than others? And where we're maybe able to go with the new markets? Thanks.

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

Well, let me take a shot again at the existing markets. I do want to flag that they're up but a half a point in penetration year-over-year. And \$4 on ARPU. So we believe the existing markets are growing, vibrant, and will continue to make progress. The second piece is a lot of the benefits that we have put in place will bear fruit over time. And we also keep cautioning people to give these things things to work their way through and as I've said over the next several quarters an -- and I think when we introduce new rate plans as an example, a couple in the second quarter of last year, I think that has clearly born out over several quarters to have generated pretty attractive results.

So please -- we're pretty proud of our existing markets and we encourage people to continue to let those grow and we think there is upside in penetration. The difference is the different markets will have different penetration break-evens. And we don't disclose the specifics of those for a host of reasons. But break-even will be dependent not only on penetration but rate of growth. A very, very fast-growing market will break even a little later because of the acquisition costs. How much network equipment is in the market. Some markets have more switches and such in it than others. And so there is a variety of different pieces that move break-evens around.

What we seem to see is continued validation that the market's break-even within 12 months, and we've now got a few that we've seen break even in the six-month time frame. I again encourage people, if one doesn't break even until 11 months, I am certainly not going to look at that as failure. I think that all of the markets progress well, and I think the team has done a real nice job.

The -- what terminal penetration looks like, we see good progress, we see good upside on that. And we would expect for a market that has launched later to have -- we would expect it to have a lower terminal penetration than where we see our existing

Nov. 07. 2006 / 5:00PM, LEAP - Q3 2006 Leap Wireless International Earnings Conference Call

markets ending, and we don't think our existing markets have ended. So we see growth in those, and we would expect to see the new markets perhaps not penetrate quite as much. Because they're launched later. Certainly, from a financial analysis method we think that that would be prudent. We are not going to do anything to restrict them.

With that said, the last piece of data is all of the markets that we're trying to operate, and all of the steps that the team has taken, are creating markets or market clusters that resemble our higher performing markets. So whether that is the footprint that we do, or the way we put them together or the distribution, or the different characteristics, we're trying to bring those to the characteristics that are a better-performing characteristics. So I think we look forward to the next several years for that matter, not only quarters but years. So I think we will keep updating you, we gave you insight into 2007, and I think the 380 to \$450 million range clearly shows that we are going to make a lot of progress next year and we look forward to working to achieve that.

David Barden - *Banc of America - Analyst*

Thank you very much. If I could ask one more data point what is the penetration of your most penetrated market right now?

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

It is in the low double digits. We don't disclose specific penetrations or which market, but we have markets that are in the low double digit penetration, and growing on an annualized basis. It is seasonal. That market is seasonal, too. But it is -- that market -- those markets, excuse me, are also growing as well.

David Barden - *Banc of America - Analyst*

Thanks, guys.

Jim Seines - *Leap Wireless International - Director IR*

Great. Melanie, is there anyone else in the Q&A queue?

Operator

No, sir, there are no further questions at this time. I would like to turn it back over to Mr. Hutcheson for any closing remarks. Please proceed, gentlemen.

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

Thank you for joining us on our call today. I hope that you leave our call today with a good understanding of how we're shaping our future, as we execute on the opportunities for expansion and profitability that 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 fourth quarter conference call. If you have any questions about our year-end results or need additional clarification, please feel free to contact Jim Seines, Director of Investor Relations, at 858-882-6084. Thank you.

Operator

Ladies and gentlemen, thank you for your participation in today's call. This concludes the presentation. You may now disconnect.

Nov. 07. 2006 / 5:00PM, LEAP - Q3 2006 Leap Wireless International Earnings Conference Call

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