

FINAL TRANSCRIPT

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LEAP - Q1 2006 Leap Wireless International Earnings Conference Call

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PRESENTATION

Operator

Welcome to the first-quarter 2006 Leap Wireless International earnings conference call. [OPERATOR INSTRUCTIONS] As a reminder, today's conference is being recorded for replay purposes. I would now like to turn the conference over to your host for today's presentation, Mr. Jim Seines, Director of Investor Relations. Please proceed, sir.

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

Thank you. Good afternoon and welcome to Leap's first-quarter 2006 conference call. As Bill noted this call is being recorded and will be available for playback in the U.S. through close of business May 23, by calling 1-888-286-8010. Callers from outside the U.S. will need to dial 1-617-801-6888. The pass code for both calls is 80921778. This conference call is also being webcast

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live and will be available for replay on the investor relations section of our website at www.leapwireless.com for the next 30 calendar days.

Joining me on the call today to discuss our first-quarter results are Doug Hutcheson, President and Chief Executive Officer; Al Moschner, Executive Vice President and Chief Marketing Officer; Glenn Umetsu, Executive Executive Vice President and Chief Technical Officer; and Dean Luvisa, acting Chief Financial Officer. Following our prepared remarks, Bill will come back on-line with instructions for keying in for the question and answer portion of the call.

During our call today we will discuss some financial metrics which do not conform to Generally Accepted Accounting Principles, or GAAP, in the U.S., such as cost per gross addition or CPGA, cash costs per user or CCU; adjusted operating income before depreciation and amortization or OIBDA; and calculated contribution per user per month. Any non-GAAP financial measures presented by the Company during today's call should be considered in addition to but not a substitute for the information prepared in accordance with Generally Accepted Accounting Principles. For a GAAP reconciliation of non-GAAP financial measures discussed today, please access the financial reports page of the investor relations section of Leap's website, www.leapwireless.com.

Today's conference call is preceded by our earnings release for the first quarter of 2006. This release has been distributed on the news wires and is available on the investor relations section of our website. The information contained in today's call should be considered together with the information contained in our earnings release.

Before we start, I would like to remind you that statements made today that are not historical in nature, including any statements about our expectations regarding future events and performance, are forward-looking statements inherently involving numerous risks and uncertainties. For example, projections of future performance and statements including the words such as hope, expect, planned, intend, believe, think, anticipate, and similar terms are forward-looking statements. Forward-looking statements made in today's conference call speak only to management's views as of the date of this conference call. The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise. Our actual results could differ materially from those stated or implied by such forward-looking statements due to the risks and uncertainties associated with our business.

Factors that could cause actual results to differ from our forward-looking statements are detailed in the section titled risk factors included in our quarterly report on Form 10-Q for the first quarter of 2006, which we expect to file shortly, and in our annual report on Form 10-K for this fiscal year ended December 31, 2005 and in our other publicly filed reports. The material discussed during our conference call today does not attempt to address the investment objectives, financial situation or needs of any person or entity. It is being provided for general informational purposes and should not be construed as a solicitation to buy or sell any securities or related financial instruments. Investors should seek financial advice regarding the appropriateness of investments in any securities. This communication is qualified in its entirety by reference to all information disclosed by Leap in its press releases and public filings with the Securities and Exchange Commission.

Finally, the financial and operating data presented today including customer information reflects the consolidated results of Leap, its subsidiaries and is not controlled joint venture Alaska Native Broadband 1 LLC which we referred to as ANB in this call for the periods indicated. 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 today. Over the past several quarters, we have developed and begun implementing a vision for our company's future that has touched all facets of our business. A vision that has not only strengthened the performance of our existing business, but established a solid foundation for our future growth and expansion. We have worked to ensure that the services we provide to our existing customer base are more reliable, innovative and cost effective than ever. At the same time,

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we have put ourselves in a position to expand the business by assembling a portfolio of highly attractive new markets and devoting resources to ensure that the rollout of each new market meets the standards for our business.

Our efforts have been wide ranging and systematic, from advancing our service offerings and evolving the customer experience to realigning our distribution and improving our ability to make our customers aware of the significant changes that have occurred within our evolving product portfolio. We believe that the progress we are sharing with you today is a strong indication that we're headed in the right direction and doing so in a timely, effective, and financially disciplined manner. Our progress 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 few of our major accomplishments since our last conference call. We achieved a positive net OIBDA contribution at the market level for Fresno for the quarter and saw continued strengthening in the performance of the market surrounding this expansion of the Central Valley cluster. We worked with our partner, ANB, to launch San Antonio on May 2, two weeks in advance of our initial launch expectations.

We reintroduced pay in advance billing for new and reactivating customers. We are enabling our premier and other key indirect dealers to provide postsale support throughout the customers' lifecycle and we revised our dealer compensation programs. Our proposed transaction for the purchase of the Carolina spectrum from Urban Com North Carolina Inc. received court approval allowing the Company to go forward with its request for SEC approval to authorize these new license transfers. And finally the SEC approved the sale of our Toledo market and the transfer of a license for Portland to a joint venture we're investing in to operate several markets in Oregon. Transactions that we expect to close during the second quarter. We believe the results we have reported today serve to illustrate the progress we are making as we execute on our strategies for growth.

The Company had a first quarter that exceeded management's expectations. Highlights include, consolidated net customer additions of over 110,000, including a nearly 80% year-over-year improvement in our net customer growth in our existing markets, defined as those markets in operation at the end of 2005. We also announced adjusted consolidated OIBDA of approximately \$79 million, a record quarter for the Company, even after nearly \$6 million of negative OIBDA associated with our new market launch activity. Our existing markets achieved a record approximately 40% adjusted OIBDA margin based on service revenues.

These accomplishments were the product of the hard work and dedication of our employees across the country. Even with the challenges of launching new markets and adapting to operational changes, their diligence and commitment to quality performance resulted in a breakthrough quarter and I'd like to thank them for their role in our success. I am again pleased with our calculated contribution per user. A measure of subscriber economics, that reflects the net effect of all of our business model operating metrics. This metric improved by \$3.10 year-over-year to \$18.20, another new high for our business.

During the remainder of today's call, Dean 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 buildout progress. I will complete the prepared portion of today's call with a discussion of the Company's strategy, Auction 66 plans, and associated capital market activities. With that, I would now like to turn the call over to Dean.

Dean Luvisa - *Leap Wireless International - CFO*

Thank you, Doug. Last quarter Leap delivered its best operating quarter to date. Accelerating customer growth in its existing markets and producing a record \$78.6 million of adjusted consolidated OIBDA while absorbing the negative OIBDA associated with the initial launch -- initial Auction 58 market launches. Total revenues increased \$38 million or 17% and service revenues increased \$30 million or 16% compared to the same quarter last year. The increase was primarily due to a higher number of total subscribers and a continued increase in the overall penetration of our higher end rate plans.

Equipment revenues increased \$8 million or 20% due to a 28% increase in handset unit sales. This was partially offset by increased promotional activity, which included bundling the first month of service with the initial handset purchase. Total operating

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expenses for the quarter were \$247 million, representing an increase of \$40 million or 20% over the first quarter of 2005. This year-over-year change included an increase of \$10 million in cost of equipment, driven by the higher handset sales volumes. Costs of service, excluding stock-based compensation expense was just under 26% of service revenues down from 27% for the same quarter last year. Selling and marketing expenses excluding stock-based comp expense increased from 12% of service revenues to 13%, reflecting the costs of supporting our new market launches during the first quarter.

G&A expenses excluding stock-based comp expense increased to 21% of service revenues up from 19% for the first quarter of last year. The major increases were in employee related costs and professional services. The increase in professional services primarily related to the restatement of our prior period financial statements, Sarbanes-Oxley-related expenses and expenses incurred in preparation for the upcoming SEC Auction.

Finally, depreciation and amortization expense for the first quarter represented 25% of service revenues compared to approximately 26% of service revenues for the first quarter of last year. We adopted FAS 123R during the first quarter of 2006 and recorded stock-based compensation expense of 4.7 million. No stock-based compensation expense was recorded for the same period of 2005.

During the first quarter of 2006, we recorded no income tax expense compared to tax expense of 5.8 million in the first quarter of 2005. We expect to recognize income tax expense for the full year 2006 consisting primarily of the deferred tax effect of the amortization of wireless licenses and goodwill for income tax purposes. Because we anticipate that we will realize a pre-tax loss for 2006, the estimated annual effective tax rate for the year is negative. No income tax expense has been recorded in the first quarter of 2006, since the application of the negative tax rate to pretax income would result in a tax benefit for the quarter that would not be realized and would be reversed in subsequent quarters. Our net income was \$17.7 million for the quarter, or \$0.29 per diluted share compared to \$7.5 million or \$0.12 per diluted share for the first quarter of 2005. We expect net income to decrease in the coming quarters of 2006 and we may incur a net loss for the year due to our new market launches and expenses associated with our financing activities.

Turning to quarter over quarter sequential performance, service revenue was up \$22 million or 11% from service revenue reported for the fourth quarter of 2005 reflecting a higher number of subscribers and a larger percentage of our customers subscribing to our higher end rate plans. A portion of the increase related to timing of customer payments in the quarter. As we mentioned on the fourth quarter conference call, the date that customers make payments can have a measurable impact on the revenues we report for that quarter. The first quarter showed a significant recovery in the timing of customer payments compared to the delayed payments we discussed for the fourth quarter of 2005.

Equipment revenue increased by 16 million, or 14 -- or 47% in the first quarter compared to the fourth quarter of 2005 driven by a 28% increase in handsets sold and improved net revenue per unit. Interest expense for the first quarter was \$7.4 million compared to 6.7 million for the fourth quarter of 2005 reflecting higher interest rates on our floating rate debt. Cash interest paid of \$11 million for the quarter was higher than interest expense due to the capitalization of interest associated with our new market build.

Moving to the balance sheet the total of unrestricted cash, cash equivalents, and short-term investments as of March 31, was approximately \$366 million. A decrease of 18 million from that reported as of December 31, 2005. We believe that our current cash position and revolving credit facility combined with our expected cash flow from operations provides us with sufficient liquidity for the capital investments required to build out the planned new markets we and our joint venture partners acquired in Auction 58. Approximately \$37 million of the cash flow from operations resulted from a decrease in accounts payable, primarily related to payments made for equipment received in the fourth quarter. I would now like to turn the call over to AI to discuss marketing, product development, and customer activity.

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Al Moschner - Leap Wireless International - Chief Marketing Officer

Thanks, Dean and good afternoon all of you who have joined us today. As Doug and Dean have noted, we achieved a record breaking result in the first quarter of 2006. During our last conference call, we indicated that our focus throughout 2005 was centered on a strategy of aligning the business around the customer. Our plan was to build upon our fundamental strengths and prepare for market expansion while improving revenue and top-line growth. We believe the results we have reported validate that strategic direction we set for our business.

Total gross additions for the first quarter were approximately 278,000, representing a 38% increase over the gross additions during the same period last year and an increase of 13% from the fourth quarter of 2005. Total net customer additions for the first quarter were likewise strong. With over 110,000 new customers. An increase of just over 140% compared to the net additions in the first quarter one year ago. For existing markets, net customer additions were 82,000, reflecting the success of the programs we have implemented to support the growth of our business. Net customer additions in new markets, which include the Paseo del Norte region in Colorado Springs launched by our joint venture ANB were approximately 28,000, achieving an overall penetration rate of 2% of covered pops within the first two months of service.

As these numbers indicate, the launch of the new markets has gone well. Initial customer acceptance has exceeded our original expectations and is at levels consistent with the launch of Fresno in August of last year. As we look to the second quarter, and the launch of another new market with ANB, this one in San Antonio and the first of five planned in central Texas this year, we will also see the effects of shifting to a new billing process. The pay in advance model we have adopted incorporates the first month of service in the initial handset purchase. For all other handset activations, this requirement of upfront payment is expected to improve the quality of new customers by reducing some potential activations. Most of which come from a greater tendency towards churning.

We will also see the effects of this adoption during the second quarter as it impacts new customer additions. Combined with the launch plans for the new markets, uncertain effects of rising fuel prices, and seasonal customer activity in our current markets, we expect to see total customer additions of between 70 and 90,000 for the second quarter, with greater than 60,000 net additions anticipated in new markets. Churn for the first quarter was 3.3%, in line with the first quarter of 2005 and within our guidance. For the second quarter of 2006, we expect churn to be between 3.9 and 4.1% versus the 3.9% in the second quarter one year ago. Reflecting the typical seasonal increase in churn in the quarter and some additional near-term factors.

Factors influencing this expectation for higher relative -- relative churn on a year-over-year basis include the following, due to the strong recent growth delivered in the last two quarters, the profile of our customer base has shifted. With the weighting toward newer customers, many of whom are younger, with consequently lower levels of income, who also typically have higher churn rates in their tenure, which moderate as they age. Offsetting some of this increased pressure on churn are the new markets, which tend to exhibit lower churn rates during their initial months after launching the market. Finally, higher energy prices and macroeconomic uncertainty may impact retention in the quarter.

Turning to our other operational metrics. Service revenues for the first quarter were up, pushing ARPU to nearly \$42. For the second quarter we expect continued strength in ARPU due to continuing customer migration to our highest rate plans and increasing contributions from vertical products. However, the seasonal patterns in customer behavior and variability in the timing of cash payments which provide a benefit in the first quarter may dampen ARPU growth. Taking these considerations into account for the second quarter, we expect ARPU near the same levels as that reported for the first quarter.

Looking at customer acquisition expenses. CPGA for the quarter was \$130. As we indicated in our last conference call, we were conducting market trials of a customer acquisition strategy that included the first month of service in the initial handset purchase price. Based on the success of these trials we have decided to incorporate this approach into our business. In order to improve the per customer cash flows from this acquisition strategy, simplify the customers' experience, and reduce the barriers for reactivating customers, we shifted from our existing pay in arrears billing process to a pay in advance model.

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Although it is important to note that moving to pay in advance will improve cash flows from new customers and facilitate the reactivation process, it will also affect the allocation of revenues received and the resulting CPGA in ARPU that we report. Under our former pay in arrears billing model, the first month free promotion resulted in a zero service charge on the first bill with a \$25 activation fee. Which was allocated to equipment revenue and offset CPGA. Under pay in advance, new customers receive the first month of service for free when they purchase a handset and there are no activation fees. The first bill that the customer receives, which is for their second month of service, is allocated entirely to service revenue. Consequently, this change in allocation will cause an increase in the CPGA metric and a deferred increase in ARPU. As the increased service revenue is recognized during the customers' second month of service. Also as the rate and scope of the new market launches increase, we will see upward pressure on CPGA associated with initial pre and post launch sales and marketing spending. As a result of the change to pay in advance, along with the cost of new market launches and expected seasonal trends, we expect CPGA to be in the 160 to \$170 range in the second quarter.

We began the year with an exceptional growth and positive outcomes from our customer acquisition and operational initiatives. However, our evolution is far from over. We will continue to align our services with the needs of our customers by evolving our distribution channels, bringing greater sales and service capability to our indirect distribution points, and improving the overall customer experience. I would like to take a moment to provide you with an update of a number of initiatives we are working on this year.

We continued strengthening our distribution network with an increase in the number of premier dealers during the quarter by approximately 120 doors, bringing total doors to approximately 200 at the end of March. With this initial expansion, we believe that the premier channel is largely in place in our existing markets. And our focus is shifting to optimizing productivity. We have enabled and continued to develop new service capabilities within our indirect channel. We expect these changes to strengthen the relationship between our dealers and customers. Increase the geographic reach of our service capabilities and reduce service-related traffic in our own retail stores, thereby increasing direct sales productivity.

Jump Mobile is becoming a more important part of our overall strategy. And we continue to broaden the product's distribution and expect to expand our marketing efforts in the coming quarters. We expect to be in a position to provide more specifics on metrics later this year as the Jump -- contribution of Jump Mobile grows. In the second quarter we plan to supplement our wireless BREW-enabled data offerings with the initial phase of WAP enabled services. This new capability will allow us to offer Cricket and Jump Mobile branded web portals in storefronts to create new potentially higher margin data products for the Company via downloadable, personalized applications, and content. Finally, we are developing relationships with JAVA application providers to deliver advanced high bandwidth applications to our customers as our networks are enabled for EVDO.

Overall, we are pleased with our progress and we plan to continue strengthening our position in the marketplace by evolving our distribution, adding value to our product offerings, and improving the customer experience. I would now like to turn the call over to Glenn.

Glenn Umetsu - *Leap Wireless International - Chief Technical Officer*

Thanks, Al. In the first quarter of 2006, we continued to progress in managing the cost structure of the business while initiating investments and infrastructure to support the anticipated growth in new and existing operating markets and additional launches of properties acquired in Auction 58. Once again, the Company realized significant efficiencies in cash costs per user, delivery in the first quarter CCU of \$19.57, even as we absorbed the costs of activities associated with new market development and the incorporation of value-added data services. Operating costs, associated with the development of new markets, added approximately \$0.50 to CCU and are included in the \$19.57.

As customers continue to adopt new products like data services and roaming, along with our unlimited offerings on long distance and text messaging, these services are expected to further drive revenues and subscriber growth as well as costs

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associated with increased usage. We anticipate, however, that the higher revenue streams associated with the use of these services will yield a growing positive contribution to the adjusted OIBDA margin over time.

We also expect to see some moderate upward pressure on CCU related to prelaunch expenses, including lease costs for the new markets that will no longer be capitalized under new GAAP accounting rules for 2006. We are looking forward to increased launch activity toward the middle of this year, which will increase CCU costs for the remainder of 2006 as a result of incremental costs in the new markets such as costs associated with additional cell sites and switches. In addition, over coming quarters we expect to record approximately \$3 million in one-time expenses associated with the previously announced centralization of our field operations in Denver. Over the long term we expect market growth to yield improving margins as the significant fixed costs associated with our business are shared, bringing greater economies of scale to our operations as we expand.

Speaking of expansion, so far this year we have worked to successfully launch Cricket Service in the Paseo del Norte cluster in Texas and New Mexico and now in San Antonio, Texas, the largest new Cricket market to date adding a total of approximately 3 million covered pops in these markets. The successful introduction of Cricket services in these new markets indicates that the Company is well positioned to advance throughout 2006 and beyond. Between now and the time we get together for our next earnings conference call, we expect to announce additional launch activity. The impact of prelaunch expenses will be identified as we report on adjusted OIBDA during the coming quarters. For the second quarter, we expect CCU to remain under \$21, reflecting the increasing costs of new market launch activity.

In addition to our expansion progress, we are scheduled to replace our outsourced billing and activation system, which is reaching the end of its life cycle later this year. This replacement will provide leading-edge technology, speed, and greater efficiencies to the management of this vital customer database. We are working carefully to ensure this large project exerts minimal disruption to our business and customers throughout the integration process. For the first quarter, capital expenditures were just under \$61 million, primarily consisting of new market billed costs. Thanks to the rapid deployment capabilities of the market launch teams, we and our joint venture partners are seeking to launch all of the Auction 58 markets over the coming year. Together, with the potential launch of the Portland cluster by LCW Wireless, we expect 14 to 20 million new pops to be covered by Cricket Service by the end of 2006. If current plans hold, we will have launched more than 50% of the new covered pops planned for 2006 by our next earnings conference call.

Each of the new markets will be equipped with the latest 1x EVDO technology. We are also on the path to building out this capability in selected existing markets and hope to begin offering these new features and services to customers by the end of 2006. We have completed test calls on 1x EVDO equipment on both Nortel and Lucent platforms and are completing installation in three trial markets. All of our Auction 58 market equipment was priced and ordered to include this upgrade so we will not incur additional EVDO capital expenditures for the latest equipment, which should be delivered to many of the new markets by the end of 2006. Doug.

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

Thank you, Glenn. It should be clear from our discussion today that the vision and strategies that we have implemented have resulted in strong progress both financially and operationally. Customer activity is up across our business and the first quarter consolidated adjusted OIBDA was a record for the Company even with the inclusion of the negative OIBDA associated with our new markets. In the past several quarters we have introduced new products, built a more productive distribution network, rebuilt our brand awareness, and improved our overall efficiency. Our strong customer growth continuing improvements in ARPU and adjusted OIBDA margin of approximately 40% on service revenues in our existing markets speaks to the underlying strength of our business.

Of course, cost management continues to be a key competitive advantage. We will continue to drive our cost reduction efforts and introduce new systems and processes designed to increase our overall efficiency. These efforts, when coupled with an industry-leading cost structure and the advantages of increasing scale over time should provide the business with a promising

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future. We are making substantial progress in building, launching, and bringing to cash flow positive the new markets we began acquiring nearly two years ago. The fundamental improvements that the Company has made and continues to make to its footprint give us the unique ability to provide our customers more value while increasing the operational efficiencies of our business. By next year, the Company's activity to improve our market clusters will have impacted approximately 60% of our total footprint an evolution that provides us with opportunities for continuing improvements in our business in the years ahead.

At our last earnings call, we said the Company was considering its options regarding the June Auction of AWS Spectrum by the FCC Commonly referred to as Auction 66. The Company has now developed its plans in more detail, which I would like to share with you. Over the past 18 months, we've added great new markets through a thoughtful selection process and a disciplined approach to the prices that we have paid for Spectrum. Once acquired, we are developing these markets through a rapid low-cost launch strategy and are carefully managing them to cash flow positive performance.

We believe that these new markets are well-suited to our products and services based on a mix of three characteristics. They are markets that allow us to establish or enhance market clusters that better serve our customers in the areas where they live, work, and play. The markets are rich with ethnic diversity and, lastly, they are markets that have a more favorable employment prospects for our existing and prospective customers. We have recently announced the purchase of certain licenses at prices substantially below the prices at which Spectrum had been previously sold. We have also chosen to forgo our purchasing Spectrum in markets that although they possess many of the characteristics of our most successful markets, were priced too aggressively to fit within our strategy. The Company has also proactively managed its asset portfolio by selling unused Spectrum and non-core assets. Examples include the sale of our operating markets in Michigan, which we were not able to combine into an effective market cluster. In addition, with our Oregon joint venture, we are contributing two smaller markets to a partnership that creates a new attractive market cluster.

We also believe that we've been efficient in -- and cost effective in launching new markets. We are well along the path to launching service covering 20 million potential new customers and have been successful and cost -- and have seen successful and cost effective execution of our buildout plans. We believe that we are carefully and efficiently nurturing these new markets to a positive cash flow performance. Fresno's rapid achievement of positive cash flow and the strong out of the gate performance of the markets launched in Q1 lead us to expect continued positive performance on this measure. Hence, when developing our plans for future expansion, our recent history of market selection, financial discipline, efficient buildout, and cash flow performance should be considered as we look at next steps.

It is likely that Spectrum and potential new markets for our service will be broadly available for the next several years as the industry expands from just under 200 megahertz to over 500 megahertz deployed for wireless services. The large amount of Spectrum coming available suggests that there may be reoccurring opportunities to acquire additional Spectrum assets and therefore we intend to acquire attractive new Spectrum only at prices we consider reasonable. We consider Auction 66 to be one of those attractive Spectrum opportunities that will allow the Company to bring its successful model to new markets and customers. Therefore, we plan to participate in the auction, continuing with a focused strategy and disciplined approach to bidding on new markets.

We expect to focus on Spectrum opportunities in three principal categories. Additional Spectrum in some of our existing markets to allow us to efficiently increase the penetration of new data services. Spectrum in new markets that is complementary to our existing market clusters and Spectrum end markets that would constitute new clusters for the Company. We may participate directly and with partners as we had done previously. Overall, our approach will be thoughtful and we believe a continued demonstration of the approach we have developed to deliver value to our market niche and our shareholders. For competitive reasons, we will not disclose any specifics about which markets we are considering, how much Spectrum we are likely to purchase, or the prices we are likely to pay beyond what we have outlined in today's call. In anticipation of our participation in Auction 66, we intend to expand our access to sources of capital.

The Company has balanced a number of considerations in developing its capital structure plan to support the purchase of these new markets. First, with improving performance and the benefits of scale, we expect to generate considerable operating cash

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flow from our existing and Auction 58 markets that will help support the expansion of our business and the buildout of markets we may acquire in Auction 66. In addition, our prospects for further improvements in consolidated OIBDA allow us to consider increasing levels of financial leverage for our company in the near term, anticipating the expected growth will reduce leverage ratios over time. Second, by utilizing a mix of financing alternatives to fund the purchase of new markets, we are aiming to provide our shareholders with a balance between near-term results and long-term growth while mitigating risk. Lastly, the Company plans to apply a disciplined focus and effective strategy for our proposed license acquisition activities. There is an inherent degree of uncertainty in the auction environment, including the effects of competition for licenses and auction prices. As a result, there are a number of unknowns surrounding the level of the companies participation in the auction. Therefore, we believe it is prudent that we maintain a significant amount of flexibility in the amount and type of capital that we raise.

The Company expects the amount of Spectrum purchase to be determined by two important factors. The availability of targeted markets that meet our strategic criteria and the attractiveness of pricing for such markets. We expect the amount of Spectrum we purchase in Auction 66 to increase with lower spectrum prices and to decrease with higher Spectrum prices. For these reasons, the Company expects to raise capital for the purchase of Spectrum in the auction with a mix of completed and committed and contingent capital. We intend to replace our existing \$710 million senior secured facility with a new facility consisting of a term loan of up to 900 million and a revolver of up to 200 million, bringing the total facility to as much as 1.1 billion. We will use a portion of the proceeds from this facility to fund the buildout of licenses we have agreed to acquire in the Carolinas. We expect the larger term loan will result in approximately 200 million of available proceeds to finance license purchases and Auction 66. The remaining two funding steps accompany steps to take -- to take are likely to be firm in their capital commitment but contingent in their drawdown.

First, the Company expects to enter into commitments for a bridge loan facility. Although the required funding is inherently uncertain given the auction dynamics, we are currently contemplating obtaining approximately \$600 million of bridge-related funds. Regardless of the size of the total available bridge facility, the amount drawn will depend upon auction results. The Company expects a variety of alternatives to be available to refinance this facility after the auction when funding requirements are known and the Company can obtain the most competitive pricing based on its specific needs.

Second, the Company will be filing a Registration Statement for a \$250 million forward sale of common equity. The use of a forward equity sale vehicle that provides us with future flexibility on the number of shares we issue is appropriate given the auction dynamics. The sale will provide the Company access to equity at known costs and we expect to settle the forward sale arrangement after the auction when funding requirements are clear. As with any registered equity offering, some timing uncertainty exists at this stage, so the Company may increase the bridge loan facility if the equity offering is not likely to be completed prior to the beginning of the auction. We believe this funding strategy puts the Company in a good position to participate in the auction and finance the purchase of properties that are attractive to the business to the degree they are priced at levels consistent with our desired return thresholds.

Before we close, the Company provided updated guidance today for the second quarter and the remainder of 2006. We expect to continue our progress and execution on our initiatives in a timely basis. The Company expects total adjusted OIBDA for the second quarter to be between 60 and \$68 million, including 18 to \$22 million of negative OIBDA associated with our new markets. Of course, as we have said, our business is seasonal with stronger customer activity expected in the first and fourth quarters for our existing markets and less robust performance in the second and third quarters. We will also pay close attention to any emerging effects on customer behavior brought on by rising fuel costs. In the past when increases in prices of fuel has affected our results, the impact has been short-lived.

For the full year 2006, the strong execution by our market launch teams and the potential to launch some markets ahead of schedule is likely to result in occurrence of new market launch costs earlier than expected. However, the Company's guidance for full year adjusted OIBDA remained unchanged at the -- at between 240 and \$300 million. We also reaffirmed our previous guidance of 14 to 20 million total new covered pops launched during 2006 and capital spending of between 430 and \$500 million, which includes the addition of the Portland market via our pending joint venture with LCW Wireless. Our capital

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expenditure guidance for 2006 may be revised in coming quarters after we complete capital market activities and determine the impact of the pending purchase of Spectrum in the Carolinas and the potential launch of some markets ahead of schedule.

In closing, the Company remains focused on executing on our mission and we are pleased with our progress. Our company today is much stronger than a year ago and our first-quarter results demonstrate the tremendous progress we had made. Looking forward, I believe the Company has a bright and promising future. As always, I encourage investors to be pragmatic as our business is seasonal and there are a number of challenges that our business and customers may face in the coming months. That said, our success is the result of our customers' appreciation of the value we provide and their loyalty, which we could not -- could not have earned without continuing commitment of our employees.

I am proud of our team's performance as they delivered at every level of the organization. They are the driving force behind our success and their accomplishments in this record-breaking quarter are truly appreciated. To all of our employees, and to Dean, 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. Bill, would you please come back on-line to review the instructions and open the Q&A portion of today's call.

QUESTIONS AND ANSWERS

Operator

[OPERATOR INSTRUCTIONS] Our first question comes from the line of Phil Cusick of Bear Stearns. Please proceed.

Phil Cusick - *Bear Stearns - Analyst*

Hi, guys, can you hear me.

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

How are you Phil.

Phil Cusick - *Bear Stearns - Analyst*

I'm good. Thanks for taking my question. I wonder if first if we can -- Doug if you can give us a little more detail on exactly how the forward sale of equity works? I've talked to a few people today and none of us are quite sure how this settles and at what price and at what time it would work.

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

We're going to give you a lot more detail on that but it's going to come in our F1 filing that we expect to do shortly and that's complying with the regular rules for this type of offering, Phil.

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Phil Cusick - *Bear Stearns - Analyst*

Okay. Second of all, in terms of Jump. We've talked a lot more on previous calls about this product. Can you just give us an idea of where this is now in terms of rollout and what it might have contributed during the quarter?

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

Yes. Let me have AI update you there.

AI Moschner - *Leap Wireless International - Chief Marketing Officer*

As we said, Phil, we're continuing to grow distribution. We ended the quarter at a little shy of 3,000 doors. We are continuing to see how the metrics evolve, understanding the types of customers and we're in the market we're seeing penetration and as we said as we get more comfortable with all those metrics we'll share those with you in the future.

Phil Cusick - *Bear Stearns - Analyst*

Okay. And finally I guess maybe we could just talk a little bit about -- sorry, ARPU. We talked about that -- that being sort of flat sequentially. It sounds very strong, though, in general. Are people still taking the majority or even more than historically the \$45 plans? And then are we seeing -- what sort of application acceptance are we seeing on top of that? What are the big ones that people are taking?

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

Well, first off, remember that if you remember that we recognize service revenue when we receive the cash. So you see a little more volatility in ARPU than perhaps you would with a contract-based customer because we're recognizing the revenue right when we receive it. So even a movement of a day or two, you get lift or movement in and out of a quarter even over a couple of days. So as we said in the fourth quarter, we had not quite as strong of receipts and we've had a little bit stronger in the first quarter so there is a little bit of that nice ARPU lift that we saw and it's timing related. However, fundamentals is what we manage and the fundamentals continue to be very attractive. We still see good consistent uptake on our highest value rate plans. We have seen nice further lift coming from our international long distance, some of our data offerings, some of our roaming products that has driven that further. Although I will tell you that most of the improvement in ARPU that we have seen has been on a rate-plan driven basis versus an add-on feature. The last piece -- and we expect those trends to continue. We -- and we expect the WAP data launch and some of the data products to give us a little bit more acceleration perhaps on this later. And you won't see that meaningfully in the results till late this year or perhaps into next year.

The last piece is the transition to PIA as we go through that and we increase the amount of service revenue recognized from a customer early on will also, over time, put upward pressure on the ARPU metrics. So we've -- we think the second quarter won't necessarily have as strong a lift as we saw between fourth and first quarter, but overall you should see generally increasing progress and remember that PIA is pay in advance. That's our -- now our definition of that. Does that help, Phil.

Phil Cusick - *Bear Stearns - Analyst*

That helps a lot. All right. Thanks, Doug. See you soon, guys.

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

Thank you.

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Operator

Thank you very much, sir. Ladies and gentlemen, your next question comes from the line of Tom Lee of JP Morgan. Please proceed.

Tom Lee - *JP Morgan - Analyst*

Hi, guys.

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

Hi, Tom.

Tom Lee - *JP Morgan - Analyst*

By the way I want to congratulate you because it's just more proof that you can still have 40% EBITDA margins in wireless in case investors ever want to know. But Doug, I found your -- I was trying to follow some of the numbers you were talking about with regard to Auction 66. So I was just hoping I could sort of bounce these off you, make sure that I'm thinking about the numbers correctly.

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

Sure.

Tom Lee - *JP Morgan - Analyst*

It sounds like there's -- expanding the term loan plus the revolver has added about -- gives you about \$200 million of availability. And that I think that you've secured access to as much as \$600 million of bridge funding. And that there's another \$250 million available from a forward equity sale. And -- so that I guess would this define the upper limit of what you potentially could see in the auction, which would be about a 1.05 billion?

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

It's certainly -- provides a reasonable expectation about what we could anticipate seeing. And so I don't want to say that that is the -- the absolute upper limit but I think that's pragmatically where the Company's planning that it would see things based on auction conditions.

Tom Lee - *JP Morgan - Analyst*

Okay. But I guess let's say that -- because there was so much Spectrum being offered here and -- at the end of the day it's obviously the right thing for you guys to target markets that you can replicate the success, right?

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

Yes.

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Tom Lee - *JP Morgan - Analyst*

As you said, it meets those conditions. But if it turns out that this is a significantly greater number of markets available, I guess is that going to leave you guys some sort of open-ended number in terms of bridging that gap, and I guess from an SEC perspective, when would they require the funds to be turned over?

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

Well, the funding is pretty tight to the end of the auction. I think it's approximately 30 days that most of it's in play. Some of it at 10 days, some of it as soon as 10 days and so it's a pretty tight process from the time you finish the auction till the time that the funding is due. And what was the first part of that question?

Tom Lee - *JP Morgan - Analyst*

Oh, just that -- well, actually, it's just in terms of when -- the SEC, when they would require that money, and I guess what you guys -- I guess you -- how you guys would actually deal with some sort of gap. In other words, if it turns out that you could pick up significantly greater number of pops, how would you guys deal with the gap in funding?

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

Well, first off, I think we have a pretty good idea what we think we're going to do and so we're trying to address that upfront. I wouldn't preclude that there -- if the pricing on the auction was low that we wouldn't review our actions and we would work with our partners to see what we could do to address availability at that point and make announcements in due course. So I think what I -- what I tried to convey is that we're going to be thoughtful and disciplined through this process and we will make adjustments real time based on how we see the trends in the auction go.

Tom Lee - *JP Morgan - Analyst*

Okay. And if I could just follow-up on that. I was really impressed by Fresno, right. It's already EBITDA break even and EBITDA positive, actually.

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

Yes. It provided a positive OIBDA contribution for the quarter.

Tom Lee - *JP Morgan - Analyst*

Yes. And San Antonio launched several weeks early and it's very early days there but could you give us some insights into sort of how the new markets launched in 2006 are progressing and if they're matching the trajectory you saw in Fresno?

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

Well, what we did say is that the markets launched in the first quarter had a strong out of the gate performance similar to Fresno. So I think we're comfortable with what we see there. I will tell you San Antonio is very early. I'm reluctant to project anything off of seven days or so. It's pretty early on that. But we are very confident that San Antonio is a well-selected market and will

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provide a nice return to the Company, as will the other -- the total of five markets that we're looking at in Fresno. So I think we're pleased there.

And the second piece that Glenn pointed out is that currently based on our plans over -- we expect over 50% of that 58 market launch will be behind us by the next time we get together on a conference call. So we wanted to put that in context so you could understand the 18 to \$22 million of second quarter negative OIBDA. The impact that it has on the higher -- the 160 to \$170 CPGA and the \$21 CCU. The Company really is moving into the launch mode at this point and would expect due to the good progress by the build and launch teams to have a fair amount of activity coming ahead in the next several months.

Tom Lee - *JP Morgan - Analyst*

Got it. Thank you, guys.

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

Thank you, Tom.

Operator

Thank you very much, sir. Ladies and gentlemen, your next question comes from the line of Romeo Reyes of Jefferies. Please proceed.

Romeo Reyes - *Jefferies - Analyst*

Hi. How are you guys doing.

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

Good, Romeo.

Romeo Reyes - *Jefferies - Analyst*

How are you. A couple of questions. On the bridge and the total financing package for Auction 66, I mean does this include funds to buy licenses or does it include sort of a prefunding of this buildout at all? That's the first question. And then the second question is with respect to the launch. I appreciate you were saying that over half will have been launched by the time we have the next conference call. How many pops do you expect to have by the end of Q2? Those are the two questions.

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

I'm going to stay with the next conference call, which would indicate that our total launch schedule for the year, best case, is about 20 million. So I think you can get a idea that -- hopefully by then we'll have a little bit better than 10 million launched and whether they're June 30, or July 15, the -- from a spending profile there's not a lot of difference from what we'll spend and their near-term impact on the metrics, which was the focus point that we were -- focal point of what we were trying to bring out so you'd have a chance to anticipate that. The bridge loan or the different funding sources could be available to build out markets. One of the things that I talked about at some length, as can some of the cash flow that the Company generates itself in the coming years could also contribute to that.

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The auction process is inherently uncertain and I think the first step is what we've done continuously has been to make sure for each incremental step we understand how we're going to finance and move through that. So we can't say at this point that the financing is a turnkey for whatever's going to happen because we don't know what's going to happen in the auction. We know what we think is appropriate, we know the levels that we think make sense for us to pay and we'll go into the auction and try and be thoughtful and disciplined and come up with the right answer.

Romeo Reyes - *Jefferies - Analyst*

And I guess -- I mean we are also trying to figure out -- I mean this is one of the questions that we get a lot, is number one how much you would like to spend and number two how -- how much of an increase you might have in your footprint. The last time with Auction 58 you almost doubled your footprint. If -- it's our expectation that I guess probably the market's expectation that prices in Auction 66 on a per megahertz pop basis are probably going to be a little bit lower than Auction 58. So, I mean I don't know if you can answer this question at all. But in terms of sort of like when you think about footprint expansion versus I guess enhancing your -- the existing -- Spectrum position in existing markets how do you think about that? I mean which one is -- which is -- I mean are you looking 50/50 in terms of your footprint without telling us exactly how many new pops you're likely to go into?

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

Well, the -- we are -- I think what we're saying is on that, I can't give you specifics there. I think it really could impede the value creation potential. So I'm going to be a little reluctant to be too specific but let me give you maybe a little bit -- not all of our markets would -- are ideally suited to have more Spectrum, so we'll be thinking pretty hard about which ones those are and we'll try and -- to the degree we get it, it needs to be efficient for us, so that's something that's attractive but not essential. I don't want to have what the Company does judged in the auction, measured solely by how much spectrum we add in our existing markets. That's an attractive -- subject to attractive pricing and a nice thing for us to do. And the -- I don't know how much the footprint is going to expand because the auction is uncertain. I will tell you that what we did in Auction 58 was pretty thoughtful and it has -- it seems to be playing out thus far fairly successfully and is going to create, we anticipate, a lot of shareholder value. And I think that formula that we used is -- our past action is a good representation not in the number, but in the process that we'll go through for what we did the last time -- or what we would expect to do this time.

Romeo Reyes - *Jefferies - Analyst*

And one last question, if I may here. In terms of the upside in the next couple of years for both the existing markets and the new Auction 58 market, one of the things that I think the market is struggling with is looking at say two years out what the EBITDA's going to be in. I mean I think that the range is very wide between the low and the high on EBITDA or OIBDA, I guess. And the way we're trying to figure it out -- this out is I mean it seems like if we were to look at market-level EBITDA margins, you are probably around 50% is my guess. As we look at the next set of let's say million customers that you get from Auction 58 -- the Auction 58 market, how should we be thinking about those in terms of the sort of market-level margins I mean -- OIBDA margins excluding the burden of the Corporate overhead? I would assume obviously that it's going to be much higher than that 40% number that you're putting together -- you're putting up on a consolidated basis. So I think that -- I mean, if you can give us a little bit of I don't know, of color here. I mean I think that it would help the market understand some of those numbers, particularly for two years out which I think are pretty understated.

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

Yes. I -- I can't comment to what the market is going to anticipate specifically but we are making a lot of progress. If you look at where we were a year ago on OIBDA in those core markets, they were producing about 70 million was our first-quarter OIBDA number in 2005. And if you take the data that we put out this year, those same markets are doing between 84, 85 million with

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the adjustment for the negative OIBDA you're seeing us and what we're talking about on the way the products are rolling out that we think that there's some nice trends on ARPU. Now, I think not all ARPU flows straight down. Some of it gets used up in the cost of service, but we have historically in our core markets flowed for each new revenue dollar about \$0.70 of that, on average, for our core product flows down to the OIBDA line. So we've exhibited that. We have exhibited the changes that we make, are attractive to our customers and prospective customers. So we've put three quarters in a row of improving customer growth numbers up as we had that opportunity to get the programs that we knew implemented in the first half of last year.

So there would tend towards being a reason we believe to see further improvements. We don't see things in place right now that aren't going to lead towards further improvements. And so we're -- we think those should extend out into the '07 and '08 time frame. We think the new market launches, we've dimensioned the total amount of working capital and OIBDA impact back several quarters ago when we talked in the \$5 range for those and we've now extended that out with the success we've seen in Fresno, which was a little higher than that number because it was our first one. But we've -- we've brought Fresno in and broken that even and now have it contributing and I think the business has a lot of potential right now. I'm sure that it'll -- it will tackle some issues along the way. You will always hear me be pragmatic and we'll have to tackle some issues. I hope I am optimistic we'll work through those which should lead to good results in '07 and '08. But we haven't given specific '07 guidance. Our typical time would be to do that later this year and I think with everything going on that we should push our way through that. And that '07 guidance should help people infer what '08 would look like and we'll -- work to be timely with that. I do think our guidance should wait until after we see how the auction comes out so we can figure out how that would be -- how that would affect how we look ahead.

Romeo Reyes - *Jefferies - Analyst*

Thank you. That's helpful.

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

Thanks, Romeo.

Operator

Thank you very much, sir. Ladies and gentlemen your next question comes from the line of Ric Prentiss of Raymond James. Please proceed.

Ric Prentiss - *Raymond James - Analyst*

Auction 66 going to be some interesting time over the next few months. Hopefully some good news for you guys. First question just to kind of clean-up question on Auction 66. Did you say that the equity offering might be done before the auction starts and if it's not then you would increase the bridge loan or did I mishear that part?

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

Yes, you heard that correctly.

Ric Prentiss - *Raymond James - Analyst*

Okay. And then obviously just dependent on how fast the SEC can turn around the S1. Should we look for the S1 very soon then?

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

Yes.

Ric Prentiss - *Raymond James - Analyst*

Okay. Second question, Doug. You talked about fuel costs a couple of times, obviously it's been trending upward, given that we're a few month and a half maybe into the next quarter so far, have you seen anything real and tangible affecting your churn beyond just the seasonal? It seems like second quarter this year not a big jump up really.

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

Well, fuel costs are higher. I think that's -- at least the newspapers have chosen to make that a regular part of their headline. So let me just say the message in the market is that they're higher and certainly that will impact our consumers. How much it impacts them, you never know because you only move through them with whatever those conditions are. We seem to weather our way through them. They do impact sometimes timing of when you receive your revenue. They do impact how strong certain quarters are or are not as well. They don't seem to impact us in the long term. We seem to move through them in due course and consumers seem to adjust to them. I'm trying to -- I'm trying to get that and keep that in people's minds because that is volatility that does increase our customers and sometimes people have a tendency of focusing on very short-run quarter-over-quarter issues and we just want to point out that there may be volatility there. We don't see a long-term impact but there is -- there could be volatility. And so we're trying to address those people that are very focused on quarter-over-quarter numbers with that thought.

Ric Prentiss - *Raymond James - Analyst*

Right. Okay. And CapEx. Okay. Speaking quarter-over-quarter. A little bit light quarter based on your annual guidance on the first-quarter capital spending, any difference due to the timing of the market launches or maybe not having to recognize the capital expenditures until you launch it as far as maybe cash payment versus receiving the equipment going on there?

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

Well, there may be but one thing -- if you go back to fourth quarter, we gave a range of guidance. And we came in at the very high end of that number. So first off, we move through a lot of CapEx in the fourth quarter and what you saw was us start to absorb some market launches perhaps a little earlier than what some had expected. And that has given us a jump on this whole process. I would expect that you'll see with about half of the pops likely to be launched by our next conference call that we may fill up, fill up that expectation on what capital spending may look like in the next couple of months here.

Ric Prentiss - *Raymond James - Analyst*

Got you.

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

I think you'll see us fill into our CapEx spending profile.

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Ric Prentiss - *Raymond James - Analyst*

All right. And just one final question. Jim is pulling his calendar out but did you really say July 15, might be next quarter's conference call.

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

No, no. I gave that as a example date of why one market might launch towards the end of a quarter or -- that we were indifferent whether it launched at the end of the quarter or two weeks later, like July 15th.

Ric Prentiss - *Raymond James - Analyst*

Sure.

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

Our normal earnings call Q filing date I think is August 9, or 10, is the SEC requirement and we would tend towards having our conference call when we're completed with our Q.

Ric Prentiss - *Raymond James - Analyst*

Sure. Makes sense. Great. Sounds like an exciting year. Good luck, guys.

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

Thank you.

Operator

Thank you very much, sir. Ladies and gentlemen your next question comes from the line of Chris Larsen, Credit Suisse. Please proceed.

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

Hi, Chris, how are you.

Chris Larsen - *Credit Suisse - Analyst*

I'm doing well, thanks. You made a couple comments on the energy prices. Have you picked up anything quantitative or is it more qualitative from the sales force? Secondly, on the churn, should we think about the 4 -- the mid-3s to the 4% as the long-term run rate? Or as we work through some of these issues could we think about that coming down to the lower 3s? And I'm talking on an annual basis, not a -- obviously with a seasonality in there. And then Doug do you care to give us a poke at how many markets you may be thinking about and expanding into in '66 or do you keep that close to the vest for now.

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

All right. So let me -- all we're trying to do with energy prices is point out that it could introduce volatility in the short term but we don't think it impacts us in the long term. So -- so -- and I am trying to address those investors that are very focused on that. We believe the guidance that we put out for the second quarter, which I think on the OIBDA, if you take the new market launch impact on it is a very attractive number for the second quarter, we believe. Management is pleased with the progress that we've seen there.

Chris Larsen - *Credit Suisse - Analyst*

Yes, it looks like the quarter's up.

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

Okay. The business -- well, there's a range. I'll let the--.

Chris Larsen - *Credit Suisse - Analyst*

Sure.

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

The higher range speak to it. But the business -- the core business is continuing to do well on that. And we gave you a range on what we thought customer additions would be. If gas was \$2 a gallon, we might see a different characteristic. I think the range of what we put out for customer performance for the second quarter's great. But it currently incorporates whatever impact we think that's going to have. Relative to the churn, the -- certainly in the near term on an annualized basis the Company seems to -- the customer base seems to perform at that level. And the Company is continuously working on ways to reduce our churn. And I believe the return -- or the implementation of pay in advance and the movement of the customer relationship into the point of sale with not only on our direct stores but our indirect store could be a very attractive move for us over the next couple of years. It is the single largest move that we have been able to come up with, to really impact the -- one of the three reasons that we give churn, which is ability to pay economically.

This is the -- this has been a move that's been very focused on that. And it happens to come at a very timely basis as there's a lot of turmoil in working through because of the gas price thing. So we're excited. We think we've done a good move. I think we'd wait -- want to wait a little while before we say how that impacts churn over the long term. And then the last piece is we're probably not going to say much about the number of markets that we're likely to acquire in the auction at this point.

Chris Larsen - *Credit Suisse - Analyst*

All right. If I could sneak one more in.

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

Sure.

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Chris Larsen - *Credit Suisse - Analyst*

Any thoughts on the cost, if you were to buy AWS Spectrum in a existing market, what sort of incremental costs to deploying that given that it's slightly different [freqs] in terms of -- how many would the incremental handset be and maybe the incremental network equipment cost be over what you would have done had you bought another PCS chunk?

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

Well, if we acquire any spectrum, one of the things that we would come out in due course is how much cost that we would anticipate that doing. I don't think that you'll find that the costs of that are even anywhere close to comparable to a new-market build. So -- I think -- I wouldn't anticipate that people are going to see a very large impact on that. Everybody has a different definition of the word large so maybe we'll let the numbers speak to that specifically, but we think that it will need -- it will be very thoughtful and efficient on what we do. The spectrum is very close to PCS Spectrum and so as a result of that, it probably isn't going to be an RF radio frequency network plan that's completely different than the spectrum that's right adjacent to it. So I think that'll work.

There will be lots of people that will make comments perhaps -- or there may be people that make comments about handsets or this or that relative to new spectrum and I hate to say this sounding like I've been around the industry for a little while, but I go back to the PCS launch back in '95 and the same things were -- handsets were going to be more expensive, a whole lot of other things and I'm optimistic that that's not the case, that this will work its way through, we will solve these issues over the -- over this -- first several quarters or year after these markets come up and that these and many other issues will get solved that people are concerned about. We think this is good quality mobile spectrum. It's attractive. It's very close in frequency to the PCS spectrum. It in fact to some degree has on the uplink from the handsets some more attractive characteristics and we will look forward to seeing what we can do with it.

Chris Larsen - *Credit Suisse - Analyst*

Thanks a lot.

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

Depending on how much it costs.

Chris Larsen - *Credit Suisse - Analyst*

Thanks.

Operator

Thank you very much, sir. Ladies and gentlemen your next question comes from the line of Todd Rethemeier of Sur Terre Research. Please proceed.

Todd Rethemeier - *Sur Terre Research - Analyst*

Congratulations, these are great numbers. Just two quick questions for you. The delayed payments that you spoke about, have you quantified that as to how much of an impact that had on ARPU this quarter? And then the second question, how -- you are talking about buying more spectrum in your existing markets today. I'm just wondering how many carriers are you using in your busiest areas? I mean what's the real demand for that spectrum?

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

Sure. The -- most of the delayed payment impact that we talked about was actually for fourth quarter. And what we said is that we saw a recovery in this quarter.

Todd Rethemeier - *Sur Terre Research - Analyst*

So it would have pushed ARPU down last quarter and up this quarter.

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

Yes. And so when we were in our fourth quarter, people were thinking that ARPU was a little flat and we had a few questions I think during our conference call about that and we said, well, we think it was delayed timing and you shouldn't be concerned about it, that the fundamentals were fine. Well, the -- I think what you saw is the fundamentals are fine and you also saw a give-back of a little bit of what wasn't in the fourth quarter occur in the first quarter. And, remember, our recognition on a cash basis, our recognition on a cash basis for revenue tend -- again, a few days' volatility in and out of a quarter has an impact on ARPU. And we would expect that to continue. The -- as far as existing markets, why don't I have Glenn talk about what -- how the carriers are in our existing markets.

Glenn Umetsu - *Leap Wireless International - Chief Technical Officer*

Okay. The carriers, of course, that we want to address are in -- the need for relief in the busiest markets are the markets where we have the least spectrum and those would be the 10 megahertz markets and in those markets we have a maximum of three carriers. So the busiest sites you would see that some of our sites are actually at the third carrier, but overall the utilization across the entire country is only on the average of 30 to 40% so you can see that we have lots of room left to continue to grow and we won't have to throw in a lot of equipment there but we're just mostly concerned about our big markets where -- if we were to contemplate other more advanced and faster data services where we are squeezed by the 10 megahertz limitation.

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

So Todd, does that get at the second question?

Todd Rethemeier - *Sur Terre Research - Analyst*

Yes, it does. On the first one are we talking \$0.25 of ARPU, is it a \$1? How much is it?

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

We haven't given that specific range of number. I think you could -- from -- I'm not giving it as a specific but I think you could model between third, fourth, and first and kind of get a -- you can get a little bit of smoothing that probably ought to occur but that's a -- we don't -- we haven't released specifically how much the number is.

Todd Rethemeier - *Sur Terre Research - Analyst*

Okay. Thanks.

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

Thank you.

Operator

Thank you very much, sir. Ladies and gentlemen, your next question comes from the line of Mr. James Breen of Weisel Partners. Please proceed.

James Breen - *Weisel Partners - Analyst*

Good evening, guys.

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

Hey, Jim, how are you?

James Breen - *Weisel Partners - Analyst*

Good, thank you. I hope you're well. One question. Traditionally I think you've seen seasonality depending on the quarter and that adds -- given the buildout and some of the market openings you've had, is that kind of the historic seasonality out the window at least for the near term as you've been opening markets it seems like each quarter now?

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

Well, I think last year seasonality -- our last year was 3,000 nets or--?

Dean Luvisa - *Leap Wireless International - CFO*

2700.

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

2700 nets for the second quarter so I think guidance up at, 70 to 90,000 implies that there's a fair amount of new-market impact on that and that the new markets would have greater than 60,000 of those net adds. So what I think we want to point out is the first quarter had 82,000 new net customers in our core markets and we don't expect we'll probably see that level of activity in the second quarter that we would see that number come down. So there's still seasonality there. So the new markets are broken out in the guidance package for you.

James Breen - *Weisel Partners - Analyst*

Great.

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

And there is still seasonality in our core markets.

James Breen - *Weisel Partners - Analyst*

Okay. And then in terms of some of the new markets and also in conjunction with Fresno, which, had good EBITDA performance, are you seeing as you enter these markets are you seeing a lot of pent-up demand that quickly realizes itself in terms of net adds and then the net adds fall off relatively quickly and that's what's getting you to the EBITDA number.

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

No. Each market will kind of have its own characteristics. Some of them tend to have pent-up demand and some of them tend to have a more continuous progression. So it's not a single formula and there's some things that we look at -- we look at pretty closely with that, I want to flag that Fresno did well on the first quarter, too. So it did contribute because the growth ended. I mean it also continued to grow as well.

James Breen - *Weisel Partners - Analyst*

Okay. Great. Thank you very much.

Operator

Thank you very much, sir. Ladies and gentlemen, your next question comes from the line of Jonathan Atkin of RBC Capital Markets. Please proceed.

Jonathan Atkin - *RBC Capital Markets - Analyst*

Hello. Yes, I was wondering about data ARPU, if you can maybe discuss some of the different moving parts around that metric and applications and maybe trends you see over the next several quarters.

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

Yes. I'll let AI answer the application, but -- let me talk a little bit about the ARPU. If you were to stare at the Company's website and look at our product offerings and you reflect on that and our \$45 rate plan is our most attractive rate plan and stare at what's different about that than the \$40 rate plan, what you'll really see is it's data. So first off, the -- a lot of the growth that we've seen in ARPU, although we don't break it out that way because of the way our business is constructed, is because we've started -- three years ago with text messaging as a add-on feature and let the customer begin to get used to that and eventually have incorporated it into our core product bundles. But it drives a very attractive response from the customer because they value those services and to the degree we can figure out how to cost reduce those and bring lots of value to the customer, it's something we will continue to be very motivated to do.

The add-on piece that we have, which AI can tell you about what our plans are, we're reluctant to break that out as a specific number because over time many of the things that we're doing right now very well might be bundled into our services and products and so the breakout number is not a key way to look at how our business will morph itself over time. As far as what kind of things we'll do, AI, you want to?

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Al Moschner - Leap Wireless International - Chief Marketing Officer

Sure. Jonathan, we mentioned in the call that one of the things that we are introducing is WAP push in the second quarter. And as Doug had mentioned, we are really looking at the monthly recurring model as the way that we will price these things going forward and packaging capability now that provides web search, web portals gives customers access to news, sports, weather, a number of other things that they can get again as an all you can eat kind of prospect on a monthly recurring fee. That capability, as we said, will occur this quarter.

Looking forward, as we now build on a platform that allows us to provide significant growth in content, there are other sort of pricing methodologies that we're looking at. We're looking at potentially providing some bandwidth. Obviously, we'll still have the per transaction kind of methodologies and today that is still pretty fundamental and ring tones, wallpaper, and games. That will continue going forward but as the bandwidth with the EVDO development occurs, the applications now will be far more robust and again there are various models that we're looking at. And as again Doug pointed out, our best performance occurs when we can bundle numbers of these products or provide unlimited access for a flat fee per month, monthly recurring fee that's packaged in the service plan. We tend to do far better with those kinds of arrangements and that's sort of the progress and the plans that we have going forward.

Jonathan Atkin - RBC Capital Markets - Analyst

Thank you. And then one more question about TravelTime. Can you talk a little bit about your experience to date? Is the take rate more meaningful among the existing base of customers or among new customers to Cricket and how are you qualifying people on that plan?

Al Moschner - Leap Wireless International - Chief Marketing Officer

Jonathan, we offer sort of two methods for using TravelTime. One is basically if there's money in your gas tank, you can use TravelTime as you need it, or we also offer it again this sort of monthly recurring capability where for \$5 we offer three minutes of capability per month. We have seen a very steady and gradual penetration of TravelTime. It is pretty well uniformly distributed across all of our markets. We see that in our new markets that those numbers are still pretty new and really haven't yet seen a lot of analysis there but clearly in our current existing markets there is a very consistent steady penetration and we would expect to see that continue over time.

Jim Seines - Leap Wireless International - Director, IR

And maybe we have time for one more question.

Operator

Thank you very much, sir, our last question comes from the line of Tim Lash of Third Point Management, please proceed.

Tim Lash - Third Point Management - Analyst

Hi, guys. Congratulations on another strong quarter and good work getting the markets rolled out. Just had a quick question or follow-up on TravelTime. I know there have been some trade publications that talked about efforts by Leap and others to get more favorable roaming economics and could you articulate or talk at all about some of those issues or what the opportunity may be to improve your roaming rates over time and whether or not that's going to require regulatory help or can that be obtained via commercial agreements?

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

Sure. Well, I think the Company has publicly filed on an action with the FCC that's discussing roaming rates and I think that there's White Papers and a variety of different comments that I think have the breadth of our perspective on it that are available and I encourage investors to feel comfortable to read what's in the public docket on roaming rates and you'll get a complete picture of the company's views. We don't release any roaming rates specifically about where we are but believe that it would be equitable and appropriate if we could get more competitive rates. And we will continue to work not only the regulatory path but also work together with our commercial contracts to see if we can improve those as we generate more volume as well over time. So we're going to keep going at it, like all things, we got to get started and generate volume so then you can work to start to cost reduce it and bring more value.

Tim Lash - *Third Point Management - Analyst*

Got it. And one follow-up question. With respect to the EVDO rollout I don't know if it's a side issue or not or how this may or may not relate. Any plans to participate in QUALCOMM Media Flow, or is that on the road map?

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

I think QUALCOMM has defined its plan on Media Flow which seems to be focused on others by the contracts that they've signed.

Tim Lash - *Third Point Management - Analyst*

Okay.

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

And to the degree they want to have broad-based free participation, I think we would look at that as one of several alternatives that are out there. We have other alternatives that are interesting that are developing and we would look forward to see how those opportunities unfold or what unfolds in other -- with Media Flow. So with that, Tim, thank you.

Tim Lash - *Third Point Management - Analyst*

Thank you.

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

And thank you -- all of you for joining us on our call today. As I hope you've heard, we are encouraged by the solid progress we continue to see. I hope that you have come away from 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 second-quarter conference call. If you have any further questions about our quarter end results or need additional clarification, please feel free to contact Jim Seines, Director of Investor Relations, at 858-882-6084. Thank you.

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Operator

Thank you very much, sir, and thank you ladies and gentlemen for your participation in today's conference call. This concludes your presentation today. And you may now disconnect. Have a good day.

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