

# FINAL TRANSCRIPT

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## **LEAP - Q4 and Year-End 2005 Leap Wireless International Earnings Conference Call**

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**Doug Hutcheson**

*Leap Wireless International, Inc. - CEO, President*

**Dean Luvisa**

*Leap Wireless International, Inc. - CFO, Treasurer*

**Al Moschner**

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## PRESENTATION

**Operator**

Good day, ladies and gentlemen. Thank you for standing by, and welcome to the Leap Wireless International fourth-quarter and year-end 2005 earnings conference call. At this time, all of our participants are in listen-only mode, and we will be facilitating a question-and-answer session towards the end of today's prepared remarks. (OPERATOR INSTRUCTIONS). As a reminder, this conference is being recorded for replay purposes. I would now like to turn your presentation over to the host for today's conference, Jim Seines, Director of Investor Relations. Please proceed, sir.

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

Thank you, Carlo. Good morning, and welcome to Leap's fourth-quarter 2005 conference call. This call is being recorded, and will be available for playback in the U.S. through close of business March 23 by calling 1-888-286-8010. Callers from outside the U.S. will need to dial 1-617-801-6888. The passcode for both calls is 450-20054. This conference call is also being webcast live, and will be available for replay on the Investor Relations section of our website, [www.LeapWireless.com](http://www.LeapWireless.com), for the next 30 days.

Regarding upcoming company events, we have confirmed our attendance at the Credit Suisse Global Leverage Finance Conference in Phoenix on March 28th and the Banc of America Media, Telecommunications, and Entertainment conference in New York on March 30.

Joining me on the call today to discuss the results of the fourth quarter are Doug Hutcheson, President and Chief Executive Officer; Al Moschner, Executive Vice President and Chief Marketing Officer; Glenn Umetsu, Executive Vice President and Chief Technical Officer; and Dean Luvisa, Acting Chief Financial Officer. Following our prepared remarks, Carlo will come online and remind you how to key 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 cost per user, or CCU; adjusted operating income before depreciation and amortization, or adjusted 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 GAAP. For a GAAP reconciliation of the non-GAAP financial measures today, please access the Financial Reports page of the Investor Relations section of Leap's website.

Today's conference call is preceded by our earnings release for the fourth quarter and full year of 2005. 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 annual report and our Form 10-K for fiscal year 2005, which we expect to file shortly, and our quarterly report on Form 10-Q for the three months ended September 30, 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 the investment 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.

In August 2005, the Company completed the sale of certain spectrum licenses and operating assets to Verizon Wireless. The customer metrics we will be discussing during today's call exclude the effect of transferring approximately 19,000 former Cricket customers in Michigan associated with the closing of this sale.

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Before Doug begins his opening remarks, I would like to mention that our 2005 Form 10-K will incorporate the effects of restatements related to corrections of income tax accounting in prior periods. We intend to file amended forms 10-Q for first three quarters of 2005 shortly after filing our 10-K. As we mentioned in our press release last week, the adjustments that will be incorporated in our restated financials are non-cash in nature, and are expected to increase net income in 2004 and 2005 from that previously reported.

Finally, I'm sure that you all have noticed that we've announced a different financial metric, adjusted OIBDA. Although we have used a substantively similar measure in the past which we call adjusted EBITDA, we have begun using the term adjusted OIBDA instead, as we believe it more clearly reflects the elements of this measure of financial performance. It is not as easy to say, however, so please bear with us if we stumble over this term a few times.

With that, I'd now like to turn the call over to Doug.

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

Thank you for joining us this morning. We appreciate your understanding of the overnight delay in our call to complete our earnings release.

2005 was undeniably an inflection point for Leap. We initiated and aligned around a mission that touched all facets of our business, and in the process created a solid foundation for growth upon which we will build our future. Our efforts over the last year have resulted in significant improvements of our service offerings, increased performance in our existing markets, advancement of our market expansion plans, improvements in our organization, and the initiation of investments in our business infrastructure. We believe that the strong underlying performance of our business as demonstrated by the results delivered in 2005 validates our mission and strategy.

Looking ahead, we view 2006 as a year of advancement as we take the mission the business has aligned around to the next level of performance. During today's call, we will share our plans. And I continue to be pleased about the prospects of our business as we look ahead.

After some brief introductory comments, we will cover our operational and financial performance for the fourth quarter, provide an update on our progress in implementing our expansion plans, and review our business strategy and outlook.

Since our last conference call in November, the Company has achieved several major business objectives. We strengthened our distribution for both the Cricket business and our Jump prepaid service, improved our product and promotional offerings, and took additional steps forward to improve our customer experience. We believe that the results of the fourth quarter and full year 2005 have validated the strategy behind these initiatives.

Early in 2006, we and our partner, Alaska Native Broadband, which we will refer to in this call as ANB, also launched two other markets, introducing the Paseo del Norte region to our Southwest market cluster, and completing the front range cluster with the launch of Colorado Springs. We have been pleased with the continued progress and results that we are experiencing as the business moves towards additional market launches throughout the coming year.

We are also encouraged by the results of our market cluster activities as demonstrated by the performance of the Fresno addition to our Central Valley of California market cluster launched last year, which is nearing OIBDA breakeven. Finally, with the completion of another spectrum sales during the quarter, we continue the process of optimizing our assets and capital structure. With three asset sales completed this year and the modest mid-2005 increase in our secured credit agreement, the Company believes it has the funding to build out and launch the Auction 58 properties, including the upgrades to EVDO technology.

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The progress we have made in achieving our business objectives is reflected in the financial and operational performance reported today -- first, solid customer growth as demonstrated by the nearly 53% year-over-year improvement in net additions for the fourth quarter. We began seeing year-over-year improvements in the third quarter 2005, and experienced additional acceleration in the fourth quarter. As indicated by the guidance we announced today, we are experiencing even stronger customer growth in the first quarter.

Second, a 12% year-over-year improvement in service revenues, with an \$80 million increase in 2005, driven primarily by improvements in ARPU, a distinct contrast to the overall industry trend in this key metric. And third, with our fourth-quarter OIBDA of 64 million, we reached adjusted OIBDA the year of approximately 275 million, which was an increase of more than \$50 million compared to 2004.

We believe that the results we are reported today reaffirm the underlying strength of our business model and our unlimited service offerings. Our business provides service to a unique customer niche and an ARPU roughly two-thirds the industry average. We also acquire our customers at a much lower cost, and deliver more than twice the number of minutes per month at a cash cost per user that is substantially lower than that of other wireless carriers.

I continue to be pleased with our calculated contribution per user per month, a measure of subscriber economics that reflects the net effect of all of our business model metrics. That metric for the fourth quarter increased by more than \$2.56 year over year to 14.59, and is comparative with that of traditional contract-based wireless carriers.

As we look ahead, we remained firm in our belief that as we continue implementing the strategies we've validated to date, we will see further positive effects reflected in our results over the next several quarters. We have significantly improved the cash flow generating capability of our existing markets, acted to expand our customer base through the launch of new services, and enhanced our customer experience. In the coming months, we expect to further strengthen our business with refinements to the product portfolio, continued expansion of our distribution and payment locations, and additional steps, such as our new mobile content efforts, to ensure that the business and the value propositions stay relevant in this rapidly changing environment.

I would now like to turn the call over to Dean, who will discuss our financial results.

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**Dean Luvisa** - *Leap Wireless International, Inc. - CFO, Treasurer*

Thank you, Doug. 2005 was a pivotal year for our business. We grew revenues and adjusted OIBDA, lowered our cost of capital, and improved our liquidity while acquiring new spectrum licenses that we expect will allow us to grow our covered pops by over 70% in the coming quarters. In addition, we upgraded our systems and processes to accommodate the planned expansion of our business while improving operating efficiencies, reporting, and controls.

We delivered another quarter of solid operating performance producing \$915 million of total revenue for the full year 2005 and approximately 275 million of adjusted OIBDA. This represents an increase in full-year adjusted OIBDA of approximately \$52 million or 23% over 2004.

Our full-year adjusted OIBDA margin as a percentage of service revenue was 36%. This margin demonstrates the Company's ability to deliver strong underlying financial performance while investing in new markets, building the infrastructure to support future growth, and addressing the Company's internal control obligations associated with section 404 of the Sarbanes-Oxley act.

The Company has made significant investment in our systems and processes to meet the needs of the new markets creates efficiency improvements and comply with Sarbanes-Oxley. I want to recognize the broad efforts of our organization in reaching the milestone that will be achieved with our 10-K filing and our 404 certification. This has been a significant regulatory mandated

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efforts, and we look forward to moving an increasing amount of our focus to other value-creating initiatives to serve the business and reduce our costs.

For the fourth quarter, total revenues increased 11% compared to the same quarter last year. Service revenues increased 22 million due to a higher number of total subscribers, a continued increase in the overall penetration of our higher-end rate plans, and a reduction in promotions affecting service revenue. Equipment revenues were in line with those of last year, as the effect of increased handset unit sales was offset by increased promotional activity which included bundling the first month of service with the initial handset purchase.

Total operating expenses for the quarter were \$218 million, including stock-based compensation expense of 2 million. This was an increase of 17 million from the fourth quarter of 2004. The primary drivers behind this year-over-year quarterly increase included an increase in sales and marketing costs of 4 million. Of that, 3 million related to higher spending on retail stores and staffing, and 1 million related to higher spending on media and advertising. G&A expenses also increased, up 4 million over the same period last year, primarily related to Sarbanes Oxley 404 compliance and expenses associated with our new joint venture activities. Finally, depreciation and amortization expense for the fourth quarter increased by 5 million compared to the fourth quarter of 2004, reflecting the impact of additional assets placed into service during the year.

Turning to quarter-over-quarter sequential performance, service revenue was slightly higher than that reported for the third quarter of 2005, reflecting a higher level of subscribers and a greater percentage of our customers subscribing to our higher-end rate plans. Those positive effects of service revenues were offset by reduced fee revenue associated with the revised fees trialed and selected markets, and a decline in service revenue related to the variability and the timing of customer payments.

Since we recognize revenue on a cash basis, whether customers make their payments at the end of one quarter or at the beginning of the next can have a measurable impact on the revenues we report for those periods, as it did last quarter.

Equipment revenue declined by \$2 million in the fourth quarter compared to the third quarter of 2005 due to the fourth-quarter promotion, which bundled his first month of service with the sale of a handset, thereby allocating a significant portion of the initial sale to service revenue instead of equipment revenue, as I mentioned earlier. Although total revenue for the quarter was less than originally anticipated, we effectively managed our operating expenses to deliver adjusted OIBDA for 2005 in the middle of our guidance range.

Interest expense for the quarter was \$7 million, while cash interest paid was 10 million.

Moving on to our operational metrics, we continue to see positive trends in our customer economics. Average revenue per user per month for the fourth quarter was \$39.74, an improvement of \$2.45 over the fourth quarter 2004. Our focus on effective spending to achieve growth continues to be apparent in our cost per gross addition, which was \$158 for the quarter, essentially even year over year, and reflective of higher spending levels typical of the holiday selling season. Cash cost per user, or CCU, for the fourth quarter was \$18.67, down \$0.07 from the same period last year, and down \$0.85 from the third quarter of 2005.

Moving to the balance sheet, the total of unrestricted cash, cash equivalents and short-term investments as of December 31 was approximately \$384 million, a decrease of 8 million from that reported in the prior quarter. Approximately 72 million of the cash flow from operations resulted from an increase in accounts payable primarily related to the buildout of new markets. We expect this accounts payable balance to decline in Q1 as we make payments for the equipment received in the fourth quarter.

Although we will spend a substantial amount of money on capital expenditures this year, we expect to see the benefit of that investment in 2007 when we believe that the markets we and our joint venture partners have launched will turn OIBDA positive and begin contributing to the bottom line.

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With nearly 400 million in cash at the close of the fourth quarter, we believe that our current cash position combined with our expected cash flow from operations adequately positions us for the significant capital investments required to build out the planned new markets we and our joint venture partners acquired in Auction 58.

Finally, we expect to comply with the requirements of section 404 of the Sarbanes-Oxley act for the first time as of December 31, 2005 by comprehensively documenting, testing, and assessing our internal control over financial reporting. As part of the evaluation process, management has concluded that the Company had two material weaknesses in its internal control over financial reporting as of that date -- a staffing-related weakness that we have previously reported, and a weakness in the preparation of our income tax provision.

We believe that despite these material weaknesses, the financial information we're discussing today and that we presented in our press release is accurate and presented in accordance with GAAP. Our internal control assessment and these two material weaknesses will be described in greater detail on our form 10-K.

I would now like to turn the call over to AI to discuss marketing, product development, and customer activity.

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**AI Moschner** - Leap Wireless International, Inc. - EVP, Chief Marketing Officer

Thanks, Dean, and good morning to all of you who have joined us today. As Doug indicated at the beginning of the call, 2005 was an important year for Leap. The broad scope of our achievements this past year have served to reinforce the value proposition of our unlimited service offerings, and affirm both the power of our business model and our differentiation in a competitive and crowded wireless marketplace.

We started 2005 with the objective of aligning the business around the customer, working to build upon our fundamental strengths, and preparing for market expansion while improving revenue and topline growth. To support this effort, we continue decentralized decisionmaking across the Company, improving our responsiveness by moving closer to the customer. This new approach increased efficiencies at the local market level, including our sales and marketing efforts, setting the framework to further improve the customer experience. We believe the results we have reported for the fourth quarter and the full year of 2005 indicate we delivered against this objective, and serve as a strong validation of strategic direction we have set for our business.

Gross additions for the fourth quarter were approximately 246,000, representing a 12% increase over the gross additions during the same period in 2004, and an increase of 5% from the third quarter of 2005. For the full year of 2005, total gross additions were approximately 872,000, an increase of nearly 10% over gross additions during 2004.

Net customer additions were likewise strong. With nearly 46,000 customers joining our Cricket and Jump Mobile services in the fourth quarter, an increase of nearly 55% compared to the fourth quarter of 2004. This brings total customer additions for the full year to over 117,000, an increase of more than 20% from the 97,000 net additions recorded for the fiscal year 2004. The net customer additions we have reported today for the fourth quarter of 2005 reflects solid demand for Cricket service in both our established Cricket markets as well as from our Central Valley cluster expansion.

Reflecting results of our customer retention initiatives, churn for the fourth quarter was 4.1%, equal to what we reported in the fourth quarter of 2004, and bringing total churn for 2005 to 3.9%, the midpoint of our guidance for the year. Our outlook for the first quarter of 2006 reflects expected seasonal improvement in churn from the fourth quarter 2005, as our expected Q1 performance comparable to 3.3% reported for the first quarter 2005.

During our last conference call, we noted that while we were generally comfortable with our outlook for net additions during 2005, there was a degree of uncertainty in our expectations for net customer performance for the fourth quarter given the

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typically heavy, back-end weighted nature of the quarter, and the economic stress on our customer segment that was not present in previous years.

While our full 2005 net additions were slightly less than we had provided in our guidance, I am pleased to report that the momentum in year-over-year net customer activity that began in the third quarter and increased in the fourth quarter 2005 has continued into the current period. We expect to see total customer additions of between 90,000 to 105,000 for the quarter and greater than 65,000 net adds in our core markets, defined as those markets in operation at the end of 2005. This reflects both the sequential and year-over-year improvements in customer growth.

The launch of new markets in the Paseo del Norte region and in Colorado Springs has gone exceptionally well. And initial customer acceptance has been strong, at levels consistent with what we saw during the Fresno launch. In addition, I am also pleased to report that Fresno remains on track to turn OIBDA breakeven by the end of this quarter.

We experienced a sequential decline in ARPU as resulted primarily from variability in the timing of customer payments at year end, coupled with a reduction in late fees associated with customer trials in selected markets. We believe this has had a limited impact, if any, on our overall customer economics and long-term value creation capability. For 2006, we expect additional strength in ARPU growth as demonstrated during the past year through continued customer migration to our highest-value rate plans and increasing penetration of features like Travel Time roaming, international long distance, and Cricket Clicks data downloads. Specifically for the first quarter 2006, we expect ARPU to be above the \$40 level.

Looking at the trend in our customer acquisition expenses, we indicated in our last conference call that we had shifted our customer acquisition strategy to include the first month's service costs in the out-the-door new customers pay when activating service. As expected, the sequential quarter-over-quarter increase we saw in CPGA reflects the increase in handset subsidy per gross addition caused by this shift in strategy. We have continued to trial bundling the first month service as part of our out-the-door price during the first quarter. In coming weeks, we expect to decide whether we're going to continue to this approach. Thus, while you should expect to see increased handset subsidy per gross addition, we anticipate total CPGA in the first quarter 2006 to be below \$150.

Looking forward, we see a business well prepared for expansion and development. 2006 will be a year of execution, building on the organization, product, distribution, and customer service foundations we built in 2005, as we continue to foster growth in our operating markets while making the investments necessary to launch our Cricket in Jump Mobile services in new markets across the country.

In addition, we intend to launch several new initiatives to continue to evolve our distribution channels and customer service, bringing more 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 a few key elements of where we intend to take the business in the coming year. In 2005, we embarked on a mission [to] transform our distribution strategy, to better serve our customers, increase our efficiency and productivity, and improve our competitive position. We began by developing a more productive distribution channel network, introducing new premiere dealers, which look and feel like Cricket-owned retail stores.

At the end of 2005, we had contracts with partners to open 110 locations in our existing markets, 80 of which were in operation at the end of the year. Given the results we've seen to date, we intend to aggressively expand this distribution approach. And we expect to have over 250 premiere dealers in operation in our existing and new markets by the end of 2006.

An equally important distribution initiative being kicked off this year is enabling our premiere and other key indirect retail dealers to provide postsale support throughout a customer's entire lifecycle. This capability includes taking payments, performing reactivations, [ESN] changes and other customer support functions. We believe this is an important growth in customer satisfaction initiative, and it strengthens the relationship between the dealer and our customer. This initiative will also affect what we do

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in our Cricket-owned retail locations and the role of our call centers. In future quarters, we will provide more details concerning these assets.

In the second quarter, we plan to supplement our wireless BREW-enabled data offerings with WAP services provided by Motricity's fuel platform. WAP will allow us to offer Cricket- and Jump-Mobile-branded Web portals and storefronts to create new higher margin revenue opportunities for the Company via downloadable personalized applications and content. Additionally, we will begin upgrading our networks to EVDO for higher speed delivery of applications and the capability to launch a variety of cutting-edge industry developed applications with proven customer demand. These applications may include on-demand music and video; location-based services; user-defined applications, including content expansion and social networking; and streaming access to a user's own digital content.

In 2006, we also expected to broaden the distribution network of our new Jump Mobile prepaid service by continuing to enter distribution channels best aligned with the urban youth segment we are targeting. By year-end, we had opened 2,300 Jump Mobile sales locations, primarily in local and convenience stores. This activity of adding local market doors will continue throughout 2006.

As the Jump Mobile brand becomes more established in the market, we intend to complement this distribution with higher velocity channels, including big box consumer electronics stores. The initial results for Jump Mobile have been very encouraging, as the street-level marketing strategies introduced in selected markets have stimulated demand. We continue to see Jump Mobile attract customers from a different, yet complementary segment, to our Cricket service. We believe that Jump Mobile will allow us to increase penetration without cannibalizing Cricket service. We remain confident in the potential that this new service has for our business in 2006 as we continue to expand our marketing efforts across our existing and new markets in the coming quarters.

Overall, we're pleased to the tremendous progress we're making on multiple fronts. We plan to continue to strengthen our competitive position in the marketplace as we add more value to our product offerings and improve the customer experience. And while the full effect of these initiatives will take time to realize, we remain confident about the direction in which we're headed, and we believe -- and we're looking forward to an exciting 2006. I would now like to turn the call over to Glenn.

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

Thank you, Al. During 2005, we made substantial progress in managing the cost structure of our business while initiating investments in infrastructure to support the future growth we anticipate in both our existing markets and through the launch of properties acquired in Auction 58. The Company continued to realize significant efficiencies and cash cost per user, delivering a CCU of less than \$19 for the year, even with the introduction of Travel Time roaming, value-added data services, increased costs associated with the Fresno launch, and the substantial costs to support 404 compliance. We built launch teams and capabilities for the rapid deployment of market launches, and we believe that the Company today stands well-positioned for success in 2006 and beyond.

Since our business has significant shared of fixed costs, market growth should enhance our ability to improve our margins over time. As our business grows, so will the efficiency gained through benefits of scale.

Looking at CCU, in the coming months we expect to see reductions in hardware and software maintenance costs, in the average rates we pay for long distance, and in property taxes in our existing markets. The continued customer adoption of vertical products, including data services, roaming, unlimited long distance, and unlimited text messaging, which is expected to drive revenue in new customer growth, should also tend to increase costs. However, we believe that the revenue streams associated with the usage of these products will yield a growing positive contribution at the adjusted OIBDA the margin level.

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In customer care, we expect CCU costs to reflect flat to slightly decreasing levels due to improved efficiencies in our outsourced call centers and a larger customer base. In the coming quarters, we expect to make onetime investments as we initiate activities to renew a billing system that is nearing its end of life, a change that we believe will provide new enhanced capabilities and scalability in support of the growth expected for the launch of new markets. We also expect to see some additional CCU pressure in 2006 related to pre-launch expense, including lease costs for the Auction 58 markets that, under new GAAP accounting rules, will no longer be capitalized. The impact of these prelaunch expenses will be identified as we report on adjusted OIBDA during the coming quarters. For the first quarter we expect CCU to be approximately \$20 or less.

Turning to the Auction 58 markets acquired by the Leap and ANB, Cricket service was successfully launched in Las Cruces, New Mexico; El Paso, Texas; and Colorado Springs, Colorado so far this year. These markets are a good illustration of our marketing clustering strategy. Las Cruces and El Paso added 59 cell sites as of the end of February, and 852,000 new covered pops to the existing southwestern Cricket markets of Albuquerque and Santa Fe. These additions roughly doubled the area of Cricket unlimited anytime calling for this cluster, providing high utility for new customers and increased value for existing ones.

The Colorado Springs launch added 44 cell sites, and approximately 500,000 pops to our previous coverage along the front range of Colorado, resulting in approximately 3,300 square miles of ubiquitous, unlimited anytime calling, covering 86% of the population of Colorado and filling in the gap in coverage we had between Denver and Pueblo.

For the remaining Auction 58 markets, the Company and ANB have released definitive search rings for the remaining cell sites, switches have been ordered, and leases and permits are being rapidly obtained. Cricket and ANB are seeking to launch all the Auction 58 markets this year. Together with the potential launch of the Portland cluster by LTW wireless, we expect 14 to 20 million new pops to be covered by Cricket service by the end of the year. All of these markets will be equipped with the latest 1xEVDO technology. We are also on the path to building out this capability in our existing markets, and hope to offer these new features and services to customers beginning at the end of 2006.

For the full year, capital expenditures were 200 million, in line with our guidance of 2005. Finally, we have revised our CapEx guidance for 2006 to 430 to \$500 million, which shifts the lower end of our previous guidance upward, reflecting the addition of the Portland market, via our pending joint venture with LTW Wireless. This CapEx guidance reflects the fact that our launches are progressing as planned in 2006. Doug?

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

Thanks, Glenn. As we shared with you today during 2005, the Company developed and aligned around a strategy designed to achieve improved broad-based growth, with services delivered in a more efficient and profitable manner. As I look ahead to 2006, I continue to be pleased by the velocity of our success as we execute on those strategies.

As we move into a year with an array of execution opportunities in front of us, I'm sure it will hold many successes and, as always, some challenges. However, as I consider the strategic plans that we have developed and our focus on our execution, it is clear the Company is both meeting the requirements of our business today and moving forward to tackle the challenges we see for tomorrow.

Our success starts with the power of our business model and the supporting strategy as a high-value, low-cost leader in the wireless industry. Our differentiated, unlimited offerings are simple and worry-free. They do not require credit checks, long-term service agreements, or early termination penalties, making our service attractive to a unique customer base, with about half of our new customers being new to the wireless segment. This number is down from as high as 80% in the past, which reflects our improving ability to attract not only customers entirely new to the space, but also new customers from within the space. We sell our services for less than it costs other carriers to produce their services, and we make economic, attractive returns.

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We believe that we have an attractive business model, a unique market niche, and an economic advantage today. We're driving ahead with our strategies to defend this advantage and to enhance our position in the future.

Some of our activities are outlined as follows. We expect continued improvements in topline revenue performance as the broad array of initiatives we have discussed provides substantially more value to our customers, increase our ARPU opportunities, expand the customer base and provide improvements in our overall customer economics.

Turning to our footprints, we continue to optimize our coverage footprint as we focus on integrating our existing and new markets. The Company most recently announced an agreement to purchase Raleigh, North Carolina, adjacent to our Charlotte and Greensboro markets, along with certain other nearby properties. We believe our approach demonstrates the systematic steps we're taking to build market clusters which allows us to deliver more value to our customers while increasing operational efficiency and resulting level market profitability.

We expect to continue developing our footprint, and as a part of this process, we are aware that the FCC has announced an upcoming sale of spectrum through Auction 66, also known as the AWS auction, which is currently scheduled to begin around the middle of the year. The Company is following this process with interest, and is analyzing its potential anticipation in this auction directly or through an arrangement with third parties.

The Company has used, and expects to continue to use a rational, return-based method in determining any actions it might consider. Also, the Company has demonstrated thoughtfulness and care in utilizing its cash resources and balance sheets as we have developed our various growth initiatives. The Company expects to maintain its flexibility to participate in Auction 66, and is considering activities in the capital markets as we determine the appropriate next steps. We expect to communicate any specific capital market activities the Company may undertake at the appropriate time.

As we look at the prepaid space, we believe that over time, Jump will represent a potentially distinct, complementary customer base that's well-suited for a high value, cost leadership strategy in a market that is likely to become cluttered with higher-priced undifferentiated offerings. We will begin to provide some additional information on this new brand later in this year as it becomes a more meaningful portion of our customer activity.

We expect to increase our activity in the data space, as we provide our customers with content applications on a timely and cost-effective basis during the course of the coming year -- initially across our existing 1x network, and subsequently through the EVDO network.

As always, one of the fundamental strengths of the Company is our continued focus and progress on cost leadership. We're confident we can continue to build on our cost leadership position within the industry while we pursue the initiatives we've discussed with you today. As we realize the benefits of these programs, including increased scale from new markets, we expect to see attractive, long-term cost performance improvements in subsequent years.

Lastly, the Company has internally developed or obtained through acquisition of other businesses a portfolio of intellectual properties. The portfolio includes two patents around our core business model. The Company is taking steps to expand the scope of its family of patents and patent applications, and is reviewing appropriate next steps with respect to its intellectual properties. We believe that this process will take some time, and we expect to update you when significant milestones are achieved.

Today, we have provided you with an updated guidance for 2006 and a preliminary outlook for the first quarter in our earnings release. The Company is undertaking a complex series of activities during 2006 that will significantly expand our business over the coming quarters. To help investors better understand our business in the face of this year of change, we intend to provide you with more detailed information on a quarterly basis and broad guidance for the year.

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Throughout today's call, we have provided our expectations for the first quarter performance on 2006 key business metrics. In addition, we are providing guidance for our first-quarter adjusted OIBDA of between 68 and 74 million. This guidance incorporates our expectation for improved adjusted OIBDA performance in our existing markets and the anticipated cost of between 5 and \$10 million associated with our new market launch activity. We expect the total additional cash investment for the new markets to be in the \$5 per covered pop range for operating and working capital requirements, which also incorporates the increased operating expenses associated with the inclusion of the prelaunch lease expenses.

Looking at full year 2006, we have in our call today updated you on our market expansion and capital spending plans. In addition, we're maintaining our expectations for full-year adjusted OIBDA of between 240 and 300 million, a range that now includes the additional operational cost impact associated with the planned launch of an additional 1.8 million covered pops in the Oregon market cluster by LTW Wireless. We expect this strong operating performance even as we absorb the cost of all the improvements and expansion we've outlined in today's call.

In closing, the Company is on the right track, building significant momentum to maintain its long-term competitive position in the industry. This could not have happened without the exceptional contributions from our employees, and I thank them for their outstanding efforts.

Last year was a good year, as together, we worked to transform the Company. We now look forward to a new year focused on executing on the plans we've outlined for you during our call today. I want to take this opportunity to recognize the outstanding efforts of the entire leadership team and thank, in particular, Dean, Al, and Glenn, for their contributions today.

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

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

Thanks, Doug. Well, I'm happy to report that the sun is just starting to come up here in San Diego. And Carlo, would you please come back online to review the instructions and open the Q&A portion of today's call?

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## QUESTIONS AND ANSWERS

### Operator

(OPERATOR INSTRUCTIONS) Romeo Reyes, Jefferies & Co.

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**Romeo Reyes** - *Jefferies & Co - Analyst*

Hi, good morning. I hope the traffic wasn't too bad getting into the office this morning. (multiple speakers) a couple of quick (multiple speakers) on the numbers here. A couple of questions. First, with respect to Jump. Can you give us a sense of -- I don't know if you can do qualitatively or quantitatively -- in terms of gross adds, in terms of the base, where that is right now? I don't know if you can give us any sort of guidance on that -- what Q4 looked like in terms of the additions coming from the Jump product.

The second question is with respect to the status of the Portland JV. My understanding was that you were looking to get [DE] status and that hadn't closed yet. But if you can give us a quick update there -- when you expect that to actually close?

And then lastly, Doug, I guess there are some other bands of spectrum out there that people are talking about -- the ATC, and I guess DRS and WCS bands. How do you see those on alternative spectrum bands relative to AWS?

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

First on Jump, the Company added most of the new Jump doors relatively late in the fourth quarter. And so that was the first time Jump has really had an opportunity to play a more significant role. And that was fairly late in the quarter. We're pleased with the uptake that we continue to see on those doors.

But even in the first quarter, I think the strengthening that we are seeing in our gross ads is principally related to our core business. And what we will do is when -- by the middle of the year, we would expect to provide a little bit more detail on the jump gross ads. And I think at that point, we're fairly comfortable it will be a meaningful part of our customer base.

The second question, the Portland JV is pending [SEC] approval. We will update you when it closes. We are -- that will involve closing on the sale of Toledo, as well as going ahead and stepping into the Portland joint venture with our partners there.

And certainly to your last question, there is a lot of spectrum that is coming available over the next several years in the United States. If you include the ATC, [MMS], some of the stock down in the 700 band -- that, more than anything else, causes the Company to want to be thoughtful on what we do. And if we do anything, we would probably recognize that we'll be fairly prudent in how we would look at pricing.

The ATC spectrum, as with the PCS spectrum back in the mid '90s, has minor issues, like needing to clear certain users and such. But assuming that that process is administered as it was with the PCS, it's attractive, and has less regulatory uncertainty at this point than some of the other bands of spectrum. And we will watch how all of those things evolve and be prudent and thoughtful and focused on generating returns if we take any actions as we move into it.

**Operator**

Blake Bath, Lehman Brothers.

**Blake Bath** - *Lehman Brothers - Analyst*

I guess two questions -- you provided a great deal of guidance, which is very helpful. In terms of the core markets, I believe you said 65,000 in the first quarter. Do have a range that you are looking for for full year '06 from the markets and service as at the end of '05?

And then the second question -- the expansion of the premiere dealer program. Can you just give us a sense for any capital and expense that is associated with getting each of those up and going? I'm just trying to determine if that's meaningful in terms of expenses for full year '06.

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

Sure. What we said on core market -- new customers was 65,000 or better. I do want to clarify that. What we saw was -- late in the fourth quarter, we saw volumes begin to build. And it has been a pretty nice curve that has rolled on over into the first quarter. We think that that is from several different factors, including the premiere dealer program really starting to get a chance to come up late in the fourth quarter.

While we did well at getting the total number of doors we intended, they came later in the quarter, and had really ramped fairly nicely. We think that has been a good long-term investment for the Company to make.

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We continue to see increasing results from the offer that includes the first month of the service in the box. And so as Al mentioned in his section, we're continuing to look forward to seeing how we can continue to move that into the base as well.

So, we're pleased with what we have seen. We have not given full-year core market guidance. We will continue to give that on a quarterly basis as we look ahead. I think we'll try and update you as we move through.

The premiere dealer has both operating and capital expenses associated with it. Although they are not large on a per-door basis, they are between 1 and \$2 million in expenses that we have incurred to date in total, split between those two areas. Once they're up and running and they establish volume, it's an attractive channel to the business.

And what Al mentioned as well is as we have been able to rollout the premiere dealers and work more closely with a concentrated footprint of dealers -- I think in our past calls, we've talked to you about what we did in Fresno, as an example -- we have about one-quarter the number of dealers in Fresno as we would have had traditionally. We're going to roll more of the long-term customer relationship into those dealers. And that provides them not only an attractive revenue opportunity over time, but it provides the Company an ability to improve our customer experience based on what we have seen.

So we are pleased with what we see going on in the dealer arena. We wish some of it could have happened a little bit earlier. But it's happened, and we're pleased with what we see on the results on it.

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**Operator**

Tom Lee, JP Morgan.

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**Tom Lee - JP Morgan - Analyst**

I'm dialing from a plane, so sorry if I get garbled. I just wanted to follow-up on some of your comments about growth and the improvement in the classic markets. Two things I was very interested in -- one, a couple of months ago, there was a lot of talk about T-Mobile, this \$39 plan, and how it was really aimed at sort of affecting your market share. I'd like to know what comments you have on what effect it had on your business and demand?

Secondly, when we look at Q1 '06, and you're talking about net adds of 90 to 110,000, which essentially is what you did in all of '05, you only launched three markets in the first quarter. And you know, obviously, Colorado Springs really came towards the end of the quarter. So a lot of this growth is obviously organic, and with churn down to 3.3% -- could you just give us some commentary on sort of what your thoughts are on churn, especially now that Jump is included in the mix?

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

Sure. The first is the business continues to operate in a competitive environment. And certainly, the fourth quarter was no different than any other quarter. In fact, I can say with some assurance that no one carrier affected us differently than any other. So I don't have a comment about any particular plan from any carrier. I think we can say that with confidence.

We have looked at how all of our markets have operated through the course of the fourth quarter and the first quarter, and believe that most of it -- most of the opportunity right now is within our hands and how we implement the plans that we validated during the fourth quarter and have rolled into the first quarter.

Our business is seasonal. I think the core markets, as an example, that are several years into operation will continue to reflect the seasonal trends with highest net adds typically coming earlier in the year and at the end of the year. So we're optimistic that this year, we'll have a more stronger entire year than we had in past years with the things we have done.

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So we are going to remain very focused on the net add growth in our core markets. We think -- we're optimistic that the first quarter will be 65,000 nets or better in those markets. That's substantially better than the previous year. And I think it will bode well. So did I get your question, Tom?

**Tom Lee** - *JP Morgan - Analyst*

Yes, it helps a lot. I guess -- if I could just follow-up. I know you guys mentioned that Fresno was going to turn EBITDA positive by the end of this quarter. Now, when we really look at -- just kind of 18 months ago and thinking about these launches, obviously, getting to EBITDA positive in essentially six months is much faster (technical difficulty). Are your initial expectations for these three recently launched markets tracking similarly to your experience with Fresno?

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

The markets that we have launched to date we have been pleased with the uptake that we have seen. And so, I think AI mentioned it -- that we have seen similar performance now in the new market launches that we have seen thus far. These markets are not the largest markets that we're launching this year. We will be a working our way through those at the year progresses, and so we will have more benchmarks as we get through the year.

But the initial market launches have been actually very positive. We're real pleased with what they have seen. We're pleased with the effect that we've seen not only on the markets that we've launched, but the adjacent markets. So we think that Fresno is at or near EBITDA positive, and we will deliver on our end of the first quarter EBITDA performance -- excuse me; OIBDA -- we're all going to have to get used to this -- OIBDA performance as we look ahead. So things are going well on the initial new market launches, Tom.

**Tom Lee** - *JP Morgan - Analyst*

Well, congratulations, guys; great quarter.

**Operator**

Rick Prentiss, Raymond James.

**Rick Prentiss** - *Raymond James - Analyst*

Good early morning to you guys.

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

Thanks for putting up with the overnight.

**Rick Prentiss** - *Raymond James - Analyst*

(laughter) A couple of questions for you. Obviously, a very exciting year in '06 with a lot of population growth over 70%, maybe. Talk to us a little bit about what the challenges are as far as getting to achieve those population increases. How are you addressing staffing in the marketplaces from a sales perspective and from the back office perspective? Cell sites -- how is that going as far as being able to get the cell sites? I think on your last quarter call, you mentioned you thought you would need about -- I think it was 1,500 to 2,000 cell sites. Has that gone up with the new population increase?

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And then on the DO side -- you mentioned you hoped to have it launched probably by the end of the year. One of your competitors out there, UbiquiTel in the California area, has really seen some significant revenue from their DO launches in Boise and Reno. With your pricing plans, how do you expect to attack the DO on a content application basis? Thanks.

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

Glenn, do you want to talk about the market launched?

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

Okay, let me handle that one Rick. Relative to the launches, and certainly, there are many challenges as we move ahead in getting those markets staffed. However, we have a very well-honed process at this point -- having launched not only, of course, all of our markets in the past, but we have looked at the best practices in those markets and then applied them to our most recent markets with Fresno, Las Cruces, El Paso, and then Colorado Springs. We increasingly tune that process to improve on the hiring. And we take existing staff from the rest of our markets and are able to do the training, and so that has gone very, very well. And [sapping] seems to be not as much of a problem at all.

From the back office side, certainly, you can see the effect of us trying to build up the capacity in our back office systems and processes. Actually, that has helped our business to make it more productive, as well.

From the cell site side, we are finding that in these earlier markets, it's not really as much of a problem as we thought. Certainly some of our later markets may prove more challenging on the zoning side. It all depends on the permitting process in many of our different municipalities. And they are all slightly different. But so far, we're not seeing anything that would prove to slow us down more than we expected. In fact, we are moving up many of our launches from our internal timeframes. And it looks like our cost structure looks completely right on track as well.

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

And then on the DO front, the first step is to get the Motricity fuel platform up and running during the second quarter. That provides us quite a bit more flexibility on how we package things than the existing data services, which has really been set up as a download individual basis. The reason that we have been interested in moving it over to the [lap base] is it starts to give us more abilities to bundle. And as we get more abilities to bundle, that lets us let our cost structure work more for us.

So you will see some initial launch activities that -- we would like to get it out first before we give you a lot of details during the second quarter. And then we really look at the DO not as the core offering, but as just the delivery mechanism that will let us -- allow us to cost-reduce things as we get the right offers into the marketplace. So hopefully by the time we get into our next conference call, we'll be able to elaborate a little bit more on that.

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**Rick Prentiss** - *Raymond James - Analyst*

And the question on the one-month trial, or the trial of the one-month service package in the box -- how should we look at that? Is it applying the 35, 40, \$45 of the one-month services still going to service revenue, and so the handset subsidy has in essence gone up by that much, or is it some factor of that? And I think if I heard you right, you said first quarter CPGA even with the trial continuing should be less than \$150.

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

You heard us correctly, first off, that we expect first-quarter CPGA to come in below \$150. You have the accounting correct; that it basically comes -- goes up to service revenue, and comes down -- goes in -- is offset in a higher handset subsidy.

And the payoff for that -- it actually is a net present value even proposition. What it does is -- you will see upward pressure on ARPU over time as result of this move. And you will see short-term CPGA, but it actually will influence ARPU up over time if you look at this. If you were to run it through the mechanics on it, it's neutral to the business. It's just how it flows through the metrics.

**Rick Prentiss** - *Raymond James - Analyst*

And then your OIBDA does include adjusting out for non-cash stock compensation?

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

That, and we adjust out for things like onetime impairments under 142, as an example, which we had none of in this quarter. So it is an operating OIBDA. And there's a reconciliation on that available on our website to verify that for people.

**Operator**

Phil Cusick, Bear Stearns.

**Phil Cusick** - *Bear Stearns - Analyst*

I wanted to just clarify and make sure Fresno is part of this 65,000 core customers in the first quarter; is that right?

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

Yes, our core markets are defined as those operating as of the end of 2005. The greater than 65,000 number would include Fresno. But I will tell you that we have had broad-based -- the 65,000 has broad-based improvements in the growth rate. It is no effort to shape the number by putting different markets in different places. We have seen just a nice improvement across the board.

**Phil Cusick** - *Bear Stearns - Analyst*

That's great. And then I think I heard you say that you expect to launch all of the Auction 58 markets in 2006; is that right?

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

The guidance that we incorporated or that we updated today says that we could. We expanded the guidance range upwards by 3 million covered pops that could launch during the year.

I think Glenn mentioned that we are seeing really good delivery by our launch teams right now. I think they are doing a good effort. They may run into obstacles later in the year. But right now, we expanded our range from 14 to 17 million [was] our previous to 14 to 20 million -- that also incorporated a couple of million pops of potential that are coming out of Portland as a result of launching that as well.

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**Phil Cusick** - *Bear Stearns - Analyst*

And with the new spectrum acquired in the Carolinas, what are the most attractive markets there, and when is the earliest we could start to see those launched?

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

We just -- that is a spectrum purchase that involves both a bankruptcy court hearing from the seller side of things, and then subsequently FCC approval. That could take us some time to even get that transaction completed. It's not incorporated in any of our numbers right now. We just announced that we were able to acquire that spectrum, I think at reasonable prices for both the buyer and seller in that case. And it is adjacent to both Greensboro and Charlotte with Raleigh. It really gives us a North Carolina -- the major areas in North Carolina, as well. So it's very consistent with our cluster strategy. And we will -- when we're confident that the transaction has an opportunity to get approved by the various agencies, we'll then start to incorporate where that would sit in our launch plan. So it's certainly at this stage, very early, and included in anything that we have discussed with you today.

**Phil Cusick** - *Bear Stearns - Analyst*

And finally, Jump -- I know it's early, but can you give us an idea of ARPU in usage so far? Are we seeing a similar usage to -- similar ARPU to the core, or is it really substantially lower?

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

We haven't given -- first off, usage -- we're actually pleased with usage. We have seen it go up as we've had a chance to put more of the product in. And we like that. Any time we have an offer in the market -- the marketplace and we see it go up, and you have our cost structure, we think that is an attractive way for us to compete.

The ARPUs on Jump are not going to be the same ARPUs as our core product. But I can tell you it's not a substantial enough part of our base, that I certainly wouldn't interpret, as an example, any of the ARPU movement you saw the fourth quarter related to anything to do with Jump at this point -- in fact, I think we outlined as an example clearly what was going on in the fourth quarter and the variability on timing of payments and some late payment fee trials -- elimination that we are working our way through.

It needs a little more time before we give you a lot of operating metrics. I think if we gave it to you -- because it's not a meaningful impact yet on what's going on in our business, I think it's appropriate to let us keep working on it and when it needs to get incorporated, we're going to be real upfront like we have with a lot of the guidance we provided today on how these things are impacting us.

**Operator**

Todd Rethemeier, SurTerre Research.

**Todd Rethemeier** - *SurTerre Research - Analyst*

Just to clarify a couple of things, guys -- first, the Jump numbers -- those are included in your customer counts, your ARPU, and your churn. Everything you are reporting is a blended average, correct?

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

Yes, it is.

**Todd Rethemeier** - *SurTerre Research - Analyst*

The handset subsidies and the tests that you're running there, including the first month service -- are you doing that in all the markets, or just a few of them? Is it the old markets, the new markets --?

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

We're doing it -- we did first several quarters -- two, three quarters ago we did some one-offs on it. But in the fourth quarter and the first quarter, it has been in all markets.

**Todd Rethemeier** - *SurTerre Research - Analyst*

Including the new ones?

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

Yes, I didn't let you finish asking all your questions, Todd; I'm sorry.

**Todd Rethemeier** - *SurTerre Research - Analyst*

They're three completely unrelated questions. And the third one is, the covered pop guidance has gone up by 3 million. Your CapEx range really hasn't really changed there -- significantly, anyway. Are you seeing better equipment pricing, or just more efficient buildouts? What is going on there?

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

Sure, let me go back to the first one -- and thanks. As I said, Jump is included in all of our metrics. So there is no separation of the stuff that we're giving for you as the total Company, unless we do a breakout like we did on the first quarter OIBDA performance -- we gave the total business, but broke out that there is 5 to \$10 million in that total business OIBDA performance that is costs associated with the new market launches in that case, so it gives you a chance to see what our core markets are doing in the first quarter as an example. So we will breakout things like that to help people understand.

The handset subsidy, as I mentioned, is across all markets. The -- as we get a chance to get further into our market launches, we continue to gain confidence in how our costs are going to rollout, I think would be the right way to say it. And so at this point, we may have some CapEx costs that moved into early 2007 as we continue to roll through this thing. So I think the total CapEx guidance that we gave for the entire launches is not -- hasn't gone down. We may have widened out how we're going to spend that as we get more efficient in how we do things, and save some of the spending till after we have launched the kind of precision -- align it into where we most need it based on initial customer acceptance.

**Operator**

Michael Nelson, Stanford Group.

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**Michael Nelson** - *Stanford Group - Analyst*

Thank you, a couple of questions -- looking for some additional granularity on the ARPU composition -- i.e., if you could give us some sense of what percent you're getting from data revenues and some of your other [feature] revenues, and I guess maybe where you think data ARPU could go to?

And then on a separate issue, in terms of the market expansion, I mean, is it I guess safe to assume -- are you still sort of guiding for breakeven similar to Fresno -- somewhere between 6 to 12 months? And any sense of the timing of this 14 to 20 million incremental pops of maybe what percent of those may happen in the, say, first half of the year versus second half of the year? Thanks.

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

Sure, thank you. First off, year over year, the Company has seen nearly \$3 -- I don't have the exact number -- of ARPU increase. And that has been principally driven by our rate plan uptake. So what you see is an increasing percentage of our customers interested in our higher value rate plan. Now, you could argue that the reason that they are interested in it is because of some of our data products, because that is what a lot of our higher value rate plans are at this juncture.

Additionally, what we have seen is the BREW-based, the download -- the individual downloads for some customers is very attractive. There is a small percentage of customers that gets excited about that. But what really takes off on -- what really causes data services to take off for us in our business is when we can get them incorporated in the middle of what we do. So look at what we have done with text messaging and MMS and instant messaging. And that's why we have been focused on the launch of the Motricity field service, bringing that in, is it lets us start to explore how we get it in the middle of our business rather than off to the side and it lets us bring more value to our customer and increase ARPU opportunities.

We have pretty clear things that we think we need to trial, which you'll start to see in the second quarter with that, and then like most of the things the Company has done, when we get it dialed in the way that we want to, we will start to roll that out. And hopefully by the end of the year and the beginning of next year, we'll really start to have those embedded in the business mainstream products. And that's where you really start to see their impact not only on our ARPU, but on the front door activity, the number of people walking in. And then we can let the wonderful efforts of Glenn's people go to work in optimizing the cost structure as well as we start to generate volume.

On the market expansion, the breakeven -- I think, we're optimistic that the breakeven on these markets will generally, certainly be inside 12 months. We're fairly comfortable with what we see. I think we need to get a little bit more experience under our belts before we say that's for every single market. But all the indications are that that's likely the case for us at this point. So, I think that that's a good way to look at it until we get a little bit more experience. Certainly the smaller markets, particularly when they are parts like Fresno or Colorado Springs, are going to go fast. They are pretty easy for us to work our way through and incorporate in, and so they might be a little bit sooner. With the update we've giving you on Fresno, I think you get an idea that it is in the bottom end of that 6 to 12-month range.

The timing on the 14 to 20 million covered POPs is throughout the year. We will be launching markets in every quarter this year. I can say that with assuredness. So there are market launches that will occur in the second quarter and in the third and the fourth as well. So I think we can say it will be spread across the year. We'll give you quarterly guidance on how we think those will impact it with the numbers that we provide in, as an example, the cost estimates we gave for how much of the market launch load is on us in the first quarter. Thanks.

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**Operator**

Ethan Schwartz, [Contrarian] Capital.

**Ethan Schwartz** - [Contrarian] Capital - Analyst

Great quarter. A couple of questions on gross adds this quarter and also next quarter, this quarter in particular. What proportion came from the markets other than Fresno -- in other words, markets you have had for at least -- (technical difficulty) -- and the same question for next quarter?

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

Well, for the first quarter, if we look at the entire package that we put out there, we said total net adds, so I don't -- I want to say on nets, total net adds are 90 to 105 00 90,000 to 105,000 for the first quarter with 65,000 or more coming from the markets in operation at the end of 2005. Then if you also couple with that that it was a previous question that the 65,000 or better is not (indiscernible), you know, it's all from Fresno, that it is broad-based growth. You get an idea that we really have been able to impact our growth profile in older markets and in newer markets at this point with the actions that we have done. So it's a broad-based growth.

Further, if you look at it that we keep talking about JUMP because we are, we think JUMP is a meaningful product for us over time but it is not a meaningful part of our business get. What I said earlier is our core products are doing well. We have got them; we're moving them in; they're doing well. We continue to see improving performance from them. We are pleased with what we see and we think that is because the product continues to get improved and the distribution is getting stronger and the messaging that we have done is working better and the team, the organization, is increasingly able to focus on the customer experience in improving that process.

So, the backbone of most of what we see and what we're discussing with you today is the core business is doing well on the market lunches are on schedule and appear to be tracking well.

**Ethan Schwartz** - [Contrarian] Capital - Analyst

Okay, but can you go back just against the Q4 and give us sort of a similar sense in Q4? In other words, of the 240-plus gross adds, is it fair to say that roughly 50 of those are Fresno or can you give us some sense of what proportion were Fresno what proportion were the others?

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

We don't give a breakout. We're not going to give -- in a position to give a breakout on the individual markets. We had the growth. The improvement we saw year-over-year on net adds was broad-based as well. It wasn't just Fresno. So, we saw improvements in our core markets. That trends that I discussed at the beginning of the call that said we have seen gross improvements in our core markets as well would be included in the fourth quarter as well.

**Ethan Schwartz** - [Contrarian] Capital - Analyst

Okay, so in other words, even the -- just to be sure about it, even the non-Fresno markets in Q4 had year-over-year increases in gross adds?

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

Yes.

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**Operator**

[Tim Lash], [Bear Point] Management.

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**Tim Lash** - *[Bear Point] Management - Analyst*

Congratulations on a good quarter and strong guidance. I just wanted to make sure I understood the EBITDA and mid guidance for '06. I want to make sure it was apples to apples. I think you indicated that the EBITDA guidance you provided today now incorporates additional covered POPs. I think you specifically mentioned the organ cluster of 1.8 million. So if it were apples to apples, you'd be effectively taking the EBITDA guidance range up? Is that what I should be taking away from this?

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

You could look at it that way I guess. I hadn't -- what we've done is incorporated more in our OIBDA guidance that we have seen enough strengthening in our business that we feel comfortable to incorporate other expenses and hold our guidance. So, I think that is an accurate assessment, Tim.

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**Tim Lash** - *[Bear Point] Management - Analyst*

Okay great. Then, with respect to Texas, that is a fairly sizable cluster. It looks like the hiring activity is ramping up there. Can you give us some sort of parameters of when you think you might launch the Texas cluster?

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

Well, we won't discuss specific timing on any market launch but you know, your hiring activity is one of the later phases that you do as you get ready to launch a market.

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**Tim Lash** - *[Bear Point] Management - Analyst*

Lastly, on the intellectual property, can you give a little more color of what you think the key patents are that you hold and kind of explain how they relate to your core business and whether or not those are entirely voice related or if they have data applications as well?

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

The patents stand on their own. They are available and we can, I think, include patent numbers on them. I think I just stand with what we said during the scripted part. At this point, we're looking and making sure that we understand the appropriate things to do.

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

Carlo, we have time for one more question.

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**Operator**

[Francis Coedo], [Bean] Capital.

**Francis Coedo - [Bean] Capital - Analyst**

Traffic, thank you. With regards to ARPU in the fourth quarter, if you strip out the onetime impact of the three months, could you let us know what ARPU would have been?

**Unidentified Company Representative**

Well, ARPU in the fourth quarter includes that, meaning what you would see from that is ARPU goes up as a result of this offer and CPGA goes up. So if you stripped it out, you would see maybe slightly lower and the sequential movement that you saw in ARPU was related to two principle activities. One was so we had variability of customer payments. Remember our business. We recognize revenue when we receive cash and so if a customer pays this on the 31st or the first of the month, we don't accrue for that. We recognize it when we get paid. So as you see timing, small timing movements, you see that. So, it only takes a couple of million bucks and you've moved ARPU \$0.30, \$0.40.

The second piece is that, as we look ahead to this year, one of the things that we believe that we have an opportunity is to start to take some of our fee structure and make it more customer friendly. So as is a part of that, we've been looking at some of our late payment fees as we've examined looking at how we're going to operate the businesses through the course of this year and started to trial the impact of how those fees are brought in. So we think that is an NPD contributor in the long run and so there was little bit of dilution in the ARPU as well on that. We don't -- what we haven't seen is any change in the underlying fundamental customers continue to adopt our higher-value rate plans. We continue to see increasing uptake on the things that would cause ARPU to trend up. As we get more and more of our front door coming in on the pay-in-advance, you'll see more upward pressure on the ARPU over time. I think we are going to move through that. As we gave with our guidance, first-quarter guidance, that we think ARPU will be above \$40. I think we have nice trends on that and we will keep pressing ahead.

**Francis Coedo - [Bean] Capital - Analyst**

Great. Just to close that out, in the third quarter, you mentioned that you saw an increasing proportion of the gross adds taking the \$45 plan? (technical difficulty) -- you saw that same trend continuing in Q4?

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

Yes, we continued to see nice upwards migration to our higher value rate plans and there was no change in the fourth quarter. This isn't a mix issue on the front door. It really is just tied to the two issues that we talked about. That's why we're fairly comfortable with the guidance that we gave for the first quarter, that we will just move through that and keep on going.

Thanks for joining us our call today. As I hope you've heard, we've been encouraged by the solid progress we continue to see. I hope that you come away from our call today with a good understanding of how we are shaping our future as we execute on the opportunities for the expansion and profitability that we see before us.

On behalf of the employees and officers and directors of Leap, we thank you for your interest and continued support. We look forward to talking to you again at our first-quarter conference call. If you have any further 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.

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