

FINAL TRANSCRIPT

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LEAP - Q3 2005 Leap Wireless International Earnings Conference Call

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Nov. 09. 2005 / 5:00PM, LEAP - Q3 2005 Leap Wireless International Earnings Conference Call

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the third quarter 2005 Leap Wireless International earnings conference call. My name is Mika and I will be your coordinator for today.

At this time all participants are in a listen-only mode. We will be facilitating a question-and-answer session towards the end of today's conference. [OPERATOR INSTRUCTIONS]. As a reminder this conference is being recorded for replay purposes.

Nov. 09. 2005 / 5:00PM, LEAP - Q3 2005 Leap Wireless International Earnings Conference Call

I would now like to turn the presentation over to your host for today's conference, Mr. Jim Seines, Director Investor Relations. Please proceed, sir.

Jim Seines - *Leap Wireless International - Director IR*

Thank you, Mika. Good afternoon and welcome to Leap's third quarter 2005 conference call.

This call is being recorded and will be available for playback in the U.S. through close of business November 16th 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 16390325.

This conference call is also being Web cast live and will be available for replay on the Investor Relations section of our Web site at www.leapwireless.com for the next 30 calendar days.

Regarding upcoming Company events we have confirmed our attendance for next week at the UBS Global Communications Conference for November 16th. We are also planning other IR-related events and expect to provide updates on these additional activities when appropriate.

Joining me on the call today to discuss the results of the third 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 Technology Officer and Dean Luvisa, acting Chief Financial Officer and Treasurer.

Following our prepared remarks, Mika will come on line to remind you how to key in for the question-and-answer portion of today's call.

During our call today we will discuss some financial metrics which do not conform to Generally Accepted Accounting Principals, or GAAP, in the U.S. such as cost per gross addition, or CPGA, cash cost per user, or CCU, adjusted EBITDA 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 as a substitute for the information prepared in accordance with Generally Accepted Accounting Principles.

For GAAP reconciliation of the non-GAAP financial measures discussed today, please access the financial reports page of the Investor Relations of Leap's Web site.

Today's conference call was preceded by our press release for the third quarter. This press release has been distributed on the news wires and is available on the Investor Relations section of our Web site.

The information contained in today's call should be considered together with the information contained in our earnings press 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 words such as hope, expect, plan, 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.

Nov. 09. 2005 / 5:00PM, LEAP - Q3 2005 Leap Wireless International Earnings Conference Call

Our actual results could differ materially from those stated or implied by such forward-looking statements due to 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 entitled, "Risk Factors" included in our quarterly report on Form 10-Q for the third quarter of 2005 which we expect to file shortly, and our quarterly report on Form 10-Q for the three months ended June 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 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.

Finally, in August, 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.

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

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

Thank you for joining us today.

As we announced in our earnings release, the Company had another solid quarter that continues to reflect broadly improved performance across our operations, including strong year-over-year growth in total revenues, adjusted EBITDA, and both gross and net customer additions.

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

Since our conference call in August, the Company has achieved the following major business objectives. We continued the expansion of our Jump prepaid product by further distinguishing the brand developing substantial new Jump-only distribution and enhancing the product offering.

We continued to build on our market clustering strategy by entering into agreements to sell certain markets and agreeing to enter into a new joint venture adding Portland, Oregon to our Salem, Eugene market cluster. When launched, this expansion is expected to add an additional \$1.9 million covered POPS to the approximately 500,000 potential customers currently covered by our Cricket networks in Salem and Eugene.

We completed the major infrastructure contract updates with our suppliers supporting the EV-DO upgrades to our existing markets and the procurement of infrastructure equipment for our new market launches. We also reached agreement with a provider of mobile content products and services in support of our current and future data offerings.

And lastly, we announced another sale of excess spectrum for approximately \$10 million as we continue to optimize our spectrum portfolio.

Nov. 09. 2005 / 5:00PM, LEAP - Q3 2005 Leap Wireless International Earnings Conference Call

The continued successful execution on our business objectives is also reflected in our financial performance that we delivered for the third quarter.

Highlights include net customer growth of more than 23,000, an improvement of 31,000 net customer additions compared to the third quarter of 2004. Churn of 4.4%, one-tenth of a percentage better than a year ago.

Continued progress in top line revenue growth with an increase in service revenues to \$194 million, an improvement of approximately \$4 million from the previous quarter and \$23 million over the same period last year.

And adjusted EBITDA for the second quarter of approximately \$67 million, including the costs associated with both the market expansion effort and the expenditures to improve our systems to meet regulatory and efficiency requirements. This produced an adjusted EBITDA margin of 34% based on service revenues.

We believe that the results we are reporting today reaffirm the underlying strength of our business model and our strong financial foundation as we build our future.

Our business provides services to a customer niche and an ARPU of roughly two-thirds the industry average. We also acquire our customers at much lower cost and deliver more than twice the number of minutes per month at a [cast] cost per user that's substantially lower than that of other wireless carriers.

I continue to be pleased with the measure of subscriber economics that sums together the net effect of these business model metrics including churn. Our calculated contribution per user per month.

That metric for the third quarter increased by more than \$2 year-over-year to \$14.45 and is competitive with that of traditional contract-based wireless carriers.

As we do typically, it's appropriate to point out that our business is seasonal with traditionally stronger customer activity metrics in the first and fourth quarters and less robust activity mid-year. As you consider our customer growth trends, it is clear that our new initiatives have gained traction in the marketplace.

We're especially pleased to have achieved these results even through the effects of two hurricanes and the associated rise in energy prices.

As we look ahead, we remain firm in our belief that the positive effect of our development activities will be reflected increasingly in our results over the next several quarters. We have significantly improved the cash flow generating capability of our existing markets, and acted upon the opportunity to expand operations through the planned launch of new markets and services.

In the coming months, we expect to further strengthen our business with refinements of the product portfolio, continued expansion of our distribution and payment locations, the introduction of enhanced and new market clusters, 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.

Dean will now discuss our financial results. Dean?

Dean Luvisa - Leap Wireless International - Acting CFO, Treasurer

Thank you, Doug.

Nov. 09. 2005 / 5:00PM, LEAP - Q3 2005 Leap Wireless International Earnings Conference Call

Leap delivered another quarter of solid operating performance producing \$231 million in total revenue and approximately \$67 million of adjusted EBITDA. Our adjusted EBITDA margin as a percentage of service revenue was 34% for the quarter.

Our adjusted EBITDA for the third quarter represents an increase of approximately 9 million, or 16% over the same period last year, demonstrating the Company's ability to deliver strong financial performance while investing in new markets, building the infrastructure to support future growth and satisfying the Company's regulatory obligations associated with the Sarbanes-Oxley Act.

Total revenues increased 11% compared to the same quarter last year. Service revenues increased \$23 million due to a higher number of total subscribers, increased 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 sales was offset by increased promotional activity and a moderate shift in mix to lower priced handsets.

Total operating expenses for the quarter were \$216.5 million, including stock-based compensation expense of 2.7 million and an impairment charge of approximately \$700,000. The total operating expenses increased 11.2 million from the third quarter of 2004.

Cost of equipment contributed \$5.4 million to the year-over-year increase in operating expenses, due primarily to higher handset sales volumes and an increase in handset replacement cost. Sales and marketing costs increased by 2 million over the prior year.

G&A expenses increased by \$10.6 million over the corresponding quarter of the prior year, a quarter in which we reported unusually low G&A expenses. The increase reflects a \$2.3 million of stock-based compensation expense, increases of \$4 million for professional services relating to Sarbanes-Oxley, and new joint venture and other activities, and \$2.2 million of labor and related expenses and other items incurred in the third quarter of 2005.

The increase in G&A expense compared to the second quarter of 2005 was approximately \$2.2 million before the effect of stock-based compensation expense.

Depreciation and amortization expense for the third quarter declined year-over-year by \$6.5 million to 49.1 million. This reduction resulted primarily from the reassessment of the useful lives of network equipment and the reduction in carrying values of property and equipment as a result of fresh start reporting.

This reduction was partially offset by amortization expense of \$8.6 million related to intangible assets recorded in connection with fresh start reporting. Additional information regarding these changes in depreciation and amortization are described in more detail in our most recent SEC reports on Forms 10-K and 10-Q.

Turning briefly to quarter-over-quarter performance, total revenues increased almost \$4 million, or 2%, and total operating expenses decreased by approximately \$2 million, or 1%.

Decreases in stock-based compensation expense of \$4 million and a reduction in impairment charges of just under \$11 million relative to the second quarter were offset primarily by increases in equipment costs and G&A expenses associated with the activities I referred to earlier in this discussion.

In the third quarter we recognized a net gain on the sale of wireless licenses and operating assets of \$14.6 million reflecting the sale of 23 wireless licenses and Cricket's operating markets in the state of Michigan.

Nov. 09. 2005 / 5:00PM, LEAP - Q3 2005 Leap Wireless International Earnings Conference Call

Interest expense for the quarter was \$6.7 million reflecting the interest costs associated with our \$600 million term loan. The interest expense reported on our income statement is less than the cash interest paid during the quarter, since in accordance with GAAP, a portion of the interest expense is capitalized during market build-out.

Cash interest paid during the quarter was approximately \$9.9 million, including the commitment fee on the \$110 million revolving credit facility. During the fourth quarter, we expect the interest on the term loan a rate of 6.6% per annum after taking into account the effect of interest rate swaps we've entered into which fixed the rate on \$355 million of the debt.

Moving further down our income statement.

Pretax income for the third quarter was \$27.3 million representing an increase of 30.1 million from that of the third quarter of 2004 before restructuring items, and an increase of 25.2 million from the second quarter of 2005. We recorded income tax expense of \$34.9 million for the quarter, producing an effective tax rate that is significantly higher than the statutory rate, due to the impact of the sale of licenses and Michigan operating markets completed during the quarter.

This sale resulted in large tax losses and the Company increased its valuation allowances by the amount of these losses. We expect to pay only minimal cash taxes in 2005 primarily due to tax deductions associated with the refinancing of our indebtedness in January of this year.

Moving to the balance sheet, the total of unrestricted cash, cash equivalents and short-term investments as of September 30th increased to approximately 392 million, an increase of 234 million from that reported in the prior period. The increase resulted from the sale of licenses and operating markets in Michigan for approximately 102 million, and an increase on our term loan of 100 million and cash flow from operations.

The cash flow from operations was offset by capital expenditures of approximately \$39 million during the quarter. With nearly 400 million of cash at the close of the third quarter, we believe that our current cash position, combined with our expected cash flow from operations adequately positions us for the significant capital investments ahead of us as we build-out the plan's new markets.

Looking forward, we expect to maintain good liquidity and relatively low leverage positions while opportunistically drawing on the capital markets to position ourselves to capture future opportunities that enhance the value of the Company.

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

AI Moschner - Leap Wireless International - EVP, Chief Marketing Officer

Thanks, Dean, and good afternoon to all of you who have joined us today.

During the first half of the year, we delivered against two principle business objectives, driving top line growth while executing against a series of product development initiatives that have significantly transformed the nature of the products and services we provide to our customers.

Our focus for the second half of the year has been to enhance our product portfolio, strengthen our distribution system and work to imbed our new products and services deeper into the customer base and by doing so improve our customer retention and subscriber growth in our existing markets. We believe that the results reported for the third quarter indicate that we were starting to deliver against our second-half objective.

Nov. 09. 2005 / 5:00PM, LEAP - Q3 2005 Leap Wireless International Earnings Conference Call

During our conference call for the second quarter, we noted that the year-over-year trends we were seeing in several market metrics indicated positive initial signs in market acceptance of the marketing, distribution, service enhancement strategies we have implemented in our business.

We are very encouraged to see that these trends have continued in the third quarter, and especially pleased with the resilience displayed by our business in the face of the significant macroeconomic disruptions that occurred during the quarter as a result of Hurricanes Katrina and Rita and associated spikes in gas prices.

Gross additions for the third quarter were approximately 234,000, an increase of 17% over the 200,000 gross additions we reported a year ago. Gross additions also improved by 22% over the 191,000 reported for the second quarter.

Net customer additions were likewise strong with nearly 23,000 customers joining our Cricket service. This represented an increase of nearly 31,000 from the net customer loss of approximately 8,000 reported in the third quarter of 2004, and an increase of more than 20,000 from nearly 3,000 net additions from the previous quarter of 2005.

Positive net customer additions were achieved in both our existing Cricket markets as well as from our Central Valley cluster expansion.

We are very satisfied with the contribution of our expansion of the Central Valley market cluster during the quarter. For obvious competitive reasons, we are hesitant to provide specific operational metrics associated with the launch, but I can tell you the initial customer growth has exceeded our expectations.

In addition, we have seen good improvement in the performance of the markets adjacent to Fresno, which has validated our beliefs regarding the value credit potential that market clustering has for our enterprise.

I am also pleased to report that based on current growth trends, we expect to see EBITDA breakeven in Fresno by the end of the first quarter of 2006. Total additional cash requirements, which include cumulative EBITDA losses and working capital requirements are expected to be well below our previous estimate of \$8 per covered POP.

Churn for the third quarter was 4.4%, an improvement of one-tenth of 1% over 4.5% reported for the third quarter of 2004. We expect customer churn for the fourth quarter to be in the range achieved in the fourth quarter of last year.

Moving on to our other operational metrics, we continue to see positive trends in our customer economics. Average revenue per user per month for the third quarter rose to \$40.22, an improvement of \$3.25 over the third quarter of 2004, and a sequential improvement of nearly \$1 compared to the second quarter of 2005, despite the seasonal increase in churn we saw relative to the second quarter.

While this improvement has been led primarily by continued customer acceptance of higher value, higher-priced service offerings we introduced in the first half of the year, we are beginning to see some increased contribution from our customers use of our new features such as the Travel Time roaming feature we launched in the second quarter.

As indicated in our last conference call, we expect to see some continually positive upward pressure on ARPU as usage of our new products and services increases and continued strong customer adoption of our highest priced unlimited access service plan becomes a larger portion of our business.

Our focus on effective spending to achieve growth continues to be apparent in our cost per gross addition, or CPGA, which was \$142 for the quarter, essentially flat year-over-year and on a sequential basis. This metric also included all of our market launch spending for Fresno.

Nov. 09. 2005 / 5:00PM, LEAP - Q3 2005 Leap Wireless International Earnings Conference Call

During the quarter, we shifted our customer acquisition strategy to include the first month's service cost in the out-the-door price new customers pay when activating service. As expected, the increase we saw in our handset subsidy per gross addition caused by the shift was offset by a reduction in the sales and marketing expense per gross add.

As we move toward the end of the year, the following is an update regarding our key initiatives.

We are making good progress in the rollout of our new Jump Mobile prepaid service. We formally introduced the enhanced brand in September, and are in the process of establishing unique distribution for Jump highlighting our new product packaging and introducing other planned product improvements.

At the CTA show in September, IDC discussed an emerging industry retail market model trend in which wireless carriers target product development activities at specific market segments. They highlighted Jump Mobile as hitting the mark in that trend, citing several of Jump's key attributes, product attributes and their alignment to the youth segment we are pursuing. We tend to agree with this assessment.

We have identified more than 2,000 potential doors for this product, and we are working hard to bring as many as possible on board by the fourth quarter. This additional distribution extends Leap's reach in our markets now with two important brands focused on different market segments.

We expect to provide more detail on the performance of Jump on the next conference call in early 2006.

Last quarter, we outlined our strategy to improve our distribution channel mix with the introduction of exclusive premiere dealers. We are making excellent progress on this front.

As for the end of the third quarter, we had 24 of these dealers in place, and we expect to have approximately 100 premiere dealers in the pipeline in various stages of deployment by the end of the year. Based on feedback we had received from our customers, on October 11th, we launched a new \$5 recurring feature that provides 30 minutes of Travel Time per month, which translates into a rate of \$0.17 per minute.

We believe this new feature will enable us to penetrate our customer base more quickly with this important new capability.

To continue to strengthen our position of our Hispanic customer base, we also launched a larger and more cost competitive international long distance package for calling into Mexico providing 550 minutes to Mexico for \$25. We took this action in part because our market research indicated significant call volume to Mexico was being carried on our network using calling cards from other providers.

Also at the CTIA show in September, we announced a relationship with Motricity, an emerging force in the wireless content aggregation business. This was Cricket's first important announcement on the path to launching EV-DO mobile applications, Web launch and other mobile content services to our customers in 2006.

We will be in discussions with content and application providers during the first half of next year and we'll provide updates when details become available.

Overall, we are pleased with the tremendous progress we are making on multiple fronts. We are strengthening our competitive position in the marketplace as we continue to add more value to our product offerings.

While the full effects of these initiatives will continue to take time to build, we remain confident about the direction in which we are heading and look forward to a strong year-end finish.

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

Nov. 09. 2005 / 5:00PM, LEAP - Q3 2005 Leap Wireless International Earnings Conference Call

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

Thanks, Al.

Today I would like to take a moment to review our third quarter performance in our non-selling cash cost per user, or CCU, provide an update on our new market build activity, then finish with a few comments regarding our revised capital expenditure guidance for 2005 and preliminary outlook guidance for fiscal year 2006.

For the third quarter, CCU was up sequentially increasing approximately \$1.09 from the second quarter to \$19.52. CCU also increased on a year-over-year basis, up \$1.14 from the \$18.38 reported for the third quarter of 2004.

Our underlying operating costs in network operations and customer care were relatively flat sequentially. The primary components of the sequential increase in CCU during the third quarter were an increase in G&A costs, related primarily to expenses supporting Sarbanes-Oxley compliance, and an increase in the cost supporting our handset replacement programs.

We expect to continue to incur substantial costs associated with SOX over the next two quarters while we complete our year one 404 compliance activities. These costs are then expected to diminish while we begin work on year two SOX compliance in mid 2006.

Despite this, we continue to work on a number of cost reduction initiatives, including, one, continuing work on least cost long distance routing, including the utilization of Voice over IP where feasible. Two, improving network repair and maintenance costs. And three, reducing the cost of our handset replacement programs.

We expect that these improvements will enable us to maintain CCU at approximately \$20 or below during the fourth quarter of 2005, even after absorbing the costs associated with SOX implementation and the launch of the Fresno expansion to our Central Valley cluster.

Looking at our expansion activities, we are making great progress, and have moved past the planning phase for the new markets being developed by Leap and our joint venture partner Alaska Native Broadband 1. Under a management services agreement, we are providing planning and management services to ANB1 with respect to the build-out and launch of their licenses and we expect to finance the build-out and initial operation of the licenses that ANB1 acquired in Auction 58.

We believe that we are on schedule to launch most of our new markets and to assist ANB1 in launching their new markets by the end of next year. Together the networks we are planning for these markets are expected to cover 14 to 17 million covered POPs by the end of 2006 depending on launch timing.

RF Engineering has finalized a network design for all markets, and leasing is well underway for switch locations, cell sites, and store facilities. Additionally, Leap and ANB1 have executed contracts with Nortel and Lucent to purchase infrastructure equipment for the new markets.

We are very pleased to have reached agreement with these two infrastructure vendors and we believe these agreements will support our joint ability to meet our quality and cost targets for the new markets. As announced, these new markets will be built with 1x EV-DO capability giving Leap and ANB1 the flexibility to provide leading-edge, high-speed data content services in the near future.

Turning to our outlook for capital expenditures, we expect our Cap Ex for 2005 for the year to be between 150 to \$200 million. It should be noted that the wide range of our Cap Ex guidance for 2005 reflects timing of expenditures for development activities in the new markets at the end of this year.

Nov. 09. 2005 / 5:00PM, LEAP - Q3 2005 Leap Wireless International Earnings Conference Call

Also, the revisions to our capital expenditure guidance are based on our experience with the Fresno build, which concentrated the deployment of equipment and construction services to periods closer to our anticipated launch date. Moving the investment closer to the launch date allows for a more efficient deployment of capital versus our previous outlook, without impacting the anticipated launch timing of these markets.

Looking ahead, our preliminary expectation for capital expenditures during 2006 is between 410 and \$500 million, which includes baseline or maintenance Cap Ex requirements in the markets that will be operational at the end of this year, as well as Leap and ANB1's new market build activity and costs associated with the deployment of EV-DO in both new and existing markets.

With that, I would now like to turn the call back over to Doug for his closing comments prior to the Q&A portion of today's call.

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

Thanks, Glenn.

As we head into the end of the year and look to 2006, I am excited by how fast the Company is changing to improve our competitive position even as we produce the strong performance we've outlined today. As I consider our strategic activities, it is clear the Company is focused on meeting the requirements that exist today and moving to meet the challenges of tomorrow in our industry.

Our success starts with the power of our business model and supporting strategies as a high-value, low-cost leader in the wireless industry. We have a unique customer niche that we service with our unlimited services, including voice, long distance, messaging products and other value-enhancing services for about two and a half cents per minute in an industry that averages about \$0.07 excluding roaming revenues.

Hence, our yield is approximately 40% of that generated by traditional contract-based wireless carriers. Our differentiated offerings are not only simple and worry-free but also do not require credit checks, long-term service agreements or early termination penalties.

On the cost side of the equation, we are a leader as we produce our services at a total cost of about \$0.01.2 cents in an industry where other carriers' costs range from 3 to \$0.05. We sell services for less than it costs for other carriers to produce their services and we make attractive economic returns.

We believe on a marginal cost basis that we maintain a significant cost advantage and when coupled with the cost of acquiring new customers, we are in a strong competitive position. We are well well-positioned with our customer niche, service offerings and constant advantages to generate shareholder value.

Even though we enjoy an attractive economic advantage today, we are driving ahead with our strategies to enhance our competitive position for the future. Some of these activities include the following: First, we've achieved solid top line revenue growth this year as our marketing initiatives have provided substantially more value to our customers, increased our ARPU, and resulted in improvements in our overall customer economics.

Our third quarter results are a validation point that we're headed in the right direction and building momentum. We believe that the positive impact will be increasingly evident over the next several quarters and we remain competent that the simplicity and worry-free nature of unlimited wireless products is and will remain a compelling competitive position in the marketplace.

Second, we continue to optimize our coverage footprint as we focus on officially integrating our existing and new markets. This year, we have integrated Fresno in the Central Valley, begun the development of the Auction 58 markets, completed the disposition of certain markets such as the Michigan properties, and developed the recently announced Oregon joint venture.

Nov. 09. 2005 / 5:00PM, LEAP - Q3 2005 Leap Wireless International Earnings Conference Call

All of these efforts have made systematic progress in building market clusters, which are important because they allow us to deliver more value to our customers while increasing the operational efficiency and resulting market level profitability. Additionally, these new markets are attractive because they're geographic, demographic, and employment characteristics reflect the same characteristics as our better performing existing markets.

The early results of the Fresno launch have affirmed our direction as we've seen solid, cost-effective execution by our launch teams and good, early service uptake by our customers.

Third, the Jump product continues to develop nicely as we build a complementary brand to deliver the Company's core brand promise of unlimited into the prepaid market segment. We are on track to build a new distribution network on par with our existing Cricket distribution, expanding the opportunity for customers to benefit from the value that comes with the worry-free nature of unlimited wireless.

As we look at our opportunity, we believe that Jump will over time represent a potentially distinct complementary customer base that's well suited for a high-value cost leadership strategy in a market segment that will be cluttered with higher priced undifferentiated offerings.

Fourth, we expect our customer content applications to provide our customer content applications on a timely and cost-effective basis during the course of the next year. Putting the word "fast" back in front of the word "follow" will provide the Company with a robust ability to provide our customers competitive offerings on a cost-effective basis.

Since we believe that the mobile content our customers desire will be broadly available, our task is to provide a high-value, low-cost conduit for them to purchase and use these products.

Lastly, the Company continues to make progress on our cost management efforts. And we expect the next round of these benefits will be reflected in our results over time.

We are confident that the array of initiatives we are pursuing will allow us to continue to build on our cost leadership position within the industry, as we realize the benefits of these programs add further scale from the new markets we expect to see attractive, long-term cost performance improvements.

Today, we updated our guidance for 2005 and introduced our preliminary outlook for 2006. For 2005 we have tightened our full-year adjusted EBITDA guidance to a range of 270 to \$280 million.

It has been an outstanding year, particularly if you consider that this strong operating performance comes even as we absorb the cost of all the improvements we've outlined in today's call. As we reflect on our tightened expectations in our customer activity during the 2005, the returns are good.

Our initiatives are showing promising results and the launch of Fresno has had some very good early success. It's important for investors to note that a substantial portion of our customer activity typically comes late in the fourth quarter.

While the competitive landscape remains generally consistent with what we have seen in the past, currently there are a number of economic stressors on our customer segments that were not present in previous years. Therefore, while we are comfortable with our plans and outlook, there is a degree of uncertainty in our net customer performance for the fourth quarter as we look to see how this year's retail holiday season unfolds for our business.

Lastly, we provided initial guidance for adjusted EBITDA between 240 and \$300 million for 2006. This guidance incorporates our expectation for improved performance in our existing markets and the anticipated results of the new market launches.

Nov. 09. 2005 / 5:00PM, LEAP - Q3 2005 Leap Wireless International Earnings Conference Call

We expect most of the costs associated with the new market launches will come in the mid and later parts of next year, and we continue to believe that the total additional cash investment will be in the \$5 per covered POP range for operating and working capital requirements. We expect to provide additional, more specific information on our new markets, services, and products as they launch and become a larger portion of our business.

In closing, the Company continues to be on the right track with momentum to build a long-term competitive position in the industry. This could not have happened without the exceptional contributions of our employees and I thank them for their outstanding efforts.

It has been a good year thus far as we work together to transform the Company and now look forward to bringing home the year in the next few weeks. I want to take this opportunity to recognize the outstanding efforts of the leadership team and in particular, Dean, Al and Glenn.

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

Jim Seines - *Leap Wireless International - Director IR*

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

QUESTIONS AND ANSWERS

Operator

[OPERATOR INSTRUCTIONS]

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

Romeo Reyes - *Jefferies & Company - Analyst*

Hi. Good afternoon, guys.

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

Hey, Romeo, how are you?

Romeo Reyes - *Jefferies & Company - Analyst*

Good. A couple of quick questions for you, maybe not so quick, actually.

The strength in the ARPU has actually been pretty surprising I guess in the last couple of quarters. It's been a nice surprise, I would say. We've been tracking the last couple of quarters to sort of calculate the marginal ARPU here based on the improvements that you've seen in the last couple of quarter, and it seems to us like the ARPU is, you know, the marginal ARPU is something around \$47 or so. And you have seen pretty significant, you know, improvement in the last two quarters particularly. So I mean, I was wondering if you could give us a, you know, some color on whether or not that marginal ARPU seems about right?

And then secondly, with respect to your classic markets and your new market, is there any possibility that you might be able to break out the EBITDA for 2006 for, you know, the classic Leap versus a new Auction 58 in the Fresno markets?

Nov. 09. 2005 / 5:00PM, LEAP - Q3 2005 Leap Wireless International Earnings Conference Call

And then just lastly with respect to Fresno penetration. I think the breaking even within six months is pretty astounding here, you know, I guess previously in your first generation of markets you were breaking even around 12 to 15 months, so this is much faster than your previous experience.

Can you give us a sense of sort of what, if you can take that to new markets to the Auction 58 markets and assume that's something in the 6 to 12-month time frame would it be an appropriate, you know, time frame for breakeven and sort of what penetration rates, at least for Fresno you would anticipate to need to breakeven? Thanks.

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

Sure. You're right on your, there's a few questions there.

One of the things on the ARPU front that we've talked about is we've really good uptake from the higher-priced rate plans, and the other piece that AI added in as well is we're seeing more uptake from some of the new services and products, not only Travel Time but Cricket Clicks and some of the other new services as well as some of the new long distance bundles. So we've got nice high-end trends going on in the ARPU.

We haven't released specifically what the marginal ARPU is, but we've been real consistent and we've seen a nice uptick on the product average build revenue that we've seen. One thing on a year-over-year basis is we have been using mail-in rebates this year versus last year and they're, the accounting for mail-in rebates has a portion of that that flows through the, that was earned through the revenue line.

On the classic versus the new market breakout on the EBIT. What we've done is given you the \$5 per covered POP number so you know what the total load of the new market launches will be between the operating and the Cap Ex piece, and what's exciting for us also is in what AI outlined is we've got data on Fresno now, where that's come in and it's exceeded our expectations to the good. I'm sorry, let me take that clear, to the good and so we feel fairly confident with what the total number is.

We are as the year unfolds going to provide as much data as we can on how these will break out at this point beyond the \$5 covered POP and 14 to \$17 million number and the mid to later in the year launch dates. We're not in a position to give a lot more data, because that requires releasing a lot of competitive information that we would like to get a little further on and get a little bit more traction on before we bring that out.

With that said, we have an obligation, we are trying to find a way to provide the information to the market.

On the last piece, Fresno has, it's been a nice initial point for us in all different ways. It was nice to see the launch team deliver it on time within our financial expectations. It's been nice to watch the market team see really nice uptake, and also on the adjacent markets, we've seen nice uptick in activity there, and improvement in how the customer performance is moving on.

Whether Fresno, the six months or so relatively speaking, six months or so extrapolates identically to all of the new markets, I think it's probably a little optimistic but I think we are on board that we're going to see EBITDA breakeven, it happened on these markets well inside 12 months if we continue to see the nice customer uptick that we've seen on these initial launches.

Romeo Reyes - *Jefferies & Company - Analyst*

What penetration rate will Fresno require to go breakeven?

Nov. 09. 2005 / 5:00PM, LEAP - Q3 2005 Leap Wireless International Earnings Conference Call

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

Well, we're not, we don't have that number out there specifically, but one of the things that I have pointed to to help with people on that question is at our average penetration right now at about 6.5 points, and as I said some of our markets in the low double-digit penetration, the implication is we've got some that are well below 6%.

I can tell you well below 4% perhaps, and all of those markets are contributing to the Company, and that gives you an indication that we don't need a lot of penetration to get a market to produce.

Romeo Reyes - *Jefferies & Company - Analyst*

Great. Great job, thanks.

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

Thanks, Romeo.

Operator

Your next question comes from the line of Todd Rethemeier of Sur Terre Research. Please proceed.

Todd Rethemeier - *Sur Terre Research - Analyst*

Thanks, good afternoon.

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

Hey, Todd.

Todd Rethemeier - *Sur Terre Research - Analyst*

Was there any costs in the G&A lines for the Auction 58 markets?

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

Let me elaborate on what Dean said.

First off, we encourage you to look both to the second quarter and fourth quarter of last year and remember that the Company was, that was our restructuring quarter a year ago, so one piece that Dean did a nice job of pointing you to is our sequential increase on the G&A was only a couple million dollars.

The majority of the sequential increase that we've seen when you corrected, I'm sorry, for the stock-based comp which is in the second and third quarters had a lot of activity in it, the majority of that has been we're in the middle of the SOX compliance effort, so we expect we'll have a lot of activity, and we want to use this effort to also improve the Company's infrastructure in some areas to make the new launches go smoother and provide us some increased efficiency.

Nov. 09. 2005 / 5:00PM, LEAP - Q3 2005 Leap Wireless International Earnings Conference Call

The second part that major element that we've talked about is that we did have some higher handset in our reverse logistics channel. We did have some higher costs during the quarter. We periodically have those move through the numbers and we would expect to see those returned.

Does that help, Todd?

Todd Rethemeier - *Sur Terre Research - Analyst*

Yes, it does. If I can just ask one more, too.

Could you give you the amount that was spent on handset upgrades, replacements this quarter?

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

Dean, are you, why don't we, Todd, can we come back to you with that?

Todd Rethemeier - *Sur Terre Research - Analyst*

Yep, that's fine, thanks.

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

Thank you.

Operator

Once again, ladies and gentlemen, to ask a question, please key star followed by one on your touch-tone telephone. Your next question comes from the line of Rick Prentiss of Raymond James. Please proceed.

Rick Prentiss - *Raymond James & Associates - Analyst*

Thank you. Good afternoon.

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

Hey, Rick.

Rick Prentiss - *Raymond James & Associates - Analyst*

A couple of questions for you. First, can you share any thought, early thoughts on how you might be looking at pricing DO into the Cricket scheme of things? And does the joint venture that Sprint announced with the cable operators factor into any of your thinking?

Nov. 09. 2005 / 5:00PM, LEAP - Q3 2005 Leap Wireless International Earnings Conference Call

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

Well, a couple of things. We will have a tendency towards trying to have a pretty value-based initial approach. We haven't announced any pricing and we don't typically announce pricing until we're, after we do the product launch, and then we'll have some enhanced services, and I think you should look forward to getting more color on that in the first half of next year.

And then relative to Sprint working with other providers. We're not too worried about that right now.

I don't want that to seem cavalier that we don't think we're in a competitive industry, I think we are, but we've got a unique cost position, a strong value proposition, a customer niche that we serve as well. We've new content applications that we think our customers want that we'll be bringing on line so we look forward to competing.

Rick Prentiss - *Raymond James & Associates - Analyst*

Okay. And then you touched on it a little bit in your comments about the new roaming offer. Can you talk a little bit is that helping you get adds, is that helping you on ARPU side? Where do you think that ability to offer the roaming product has been helping out?

Al Moschner - *Leap Wireless International - EVP, Chief Marketing Officer*

Rick, this is Al Moschner.

There was really two intents that we had with that move. One, making it part of the natural purchase acquisition offer in our stores and our indirect partners we hope to get a much faster penetration rate of that feature so that was the first element of the change, and the benefit which I think is your question, is really more aimed more at the initially at the retention side.

As we have talked about in previous calls that we do have customer losses due to, you know, footprint and size of our networks. This is a, you know, a major enhancement to help with that.

But I do believe long-term as this feature and function becomes more entrenched in the marketplace and customers understand that Cricket now has this offering, it might, in fact, also be an acquisition improvement. But at this point, we're aimed at the retention side of the equation.

Rick Prentiss - *Raymond James & Associates - Analyst*

Okay. The final question is, can you update us on how many cell sites you have in your existing markets?

And for the 14 million to 17 million covered POPs you hope to have by the end of the next year, how many additional cell sites would that mean as we start modeling your op costs?

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

Yes, the existing cell sites, we have approximately 2600 cell sites, Rick, and I think we will add in the vicinity 1500 to 2,000 as we roll out the new market launches.

Rick Prentiss - *Raymond James & Associates - Analyst*

Great. Good luck with the launches, guys.

Nov. 09. 2005 / 5:00PM, LEAP - Q3 2005 Leap Wireless International Earnings Conference Call

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

Thank you much.

Operator

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

Tom Green - *JPMorgan Chase & Company - Analyst*

Hey, guys.

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

Hey, Tom.

Tom Green - *JPMorgan Chase & Company - Analyst*

How are you? Congratulations and thanks for just providing us insights and updates on what's going on with the new markets.

I did want to drill down though on your '06 outlook. I know Romeo kind of probed, but what I want to understand is if you take your EBITDA guidance range which is for '06, you know, you're talking 240 to 300 million validated, and let's just say that, you know, the reason you get to 300 is that there are lower losses in the new market.

If we took the scenario where there's no losses in the new market, that would imply that your classic markets will do at least \$300 million in '06 if you took the high end of the number and assume that the swing factor in your guidance range is really just the losses associated with the new market. To me that's a pretty impressive number because that's suggesting almost 10% growth in your classic market EBITDA.

So I guess really just commenting. You know when you think of that kind of growth organically in your classic market, is that resulted from Jump adding to your overall growth rate, the improved visibility that's associated with the new distribution, or as you guys have been talking about, it's a combination of factors that you've launched new markets, you've got, I mean you've launched new plans to refresh the brand, you've got new products, you're revamping distribution centers. So I'd love to get some color on that.

And then just additionally, I think in the past you guys were using 5 to \$8 as the working capital loss assumptions for the new market. And I just wanted to make sure, is that still the same range you guys want us to keep in mind when you think of EBITDA losses plus working capital? Thanks.

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

Well, thanks, Tom.

First off, I mean, your analysis seems logical. We see trends that there's substantial additional growth available in our existing markets. We're generating that. We're seeing that on the ARPU line, and we're also seeing a lot of promise on all of the new initiatives that we've worked on, whether it's the ones, the new service offerings, the product changes that we've made, the

Nov. 09. 2005 / 5:00PM, LEAP - Q3 2005 Leap Wireless International Earnings Conference Call

middle of the distribution enhancements that we are now rolling out with premiere dealers, the new branding initiatives that have been rolling out.

So we are looking forward to getting on into the next few quarters and letting these things work. We are seeing a region to believe that there's increasing upside in our market, in the existing markets.

I did affirm that we think for the new markets, the remaining new markets we said two things, first is Fresno came in better than the \$8, substantially better is what we said, and then we said for the rest of the remaining markets that we think it will be approximately \$5 per covered POP including both the EBITDA losses and any impacts on the working capital line. So we've narrowed that in on the basis of our experience.

Tom Green - *JPMorgan Chase & Company - Analyst*

Okay. And sorry, just to clarify, so that \$5 which was really, it was a very sharp decrease in your expected capital requirements, your EBITDA loss, is that going to be spread out over the period to get to breakeven? Or is that the dollar amount you're expecting to lose in '06?

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

Well, one point I do want to say it's \$5, we're affirming that number. We feel comfortable that now especially with Fresno that we've got good data around it.

The second piece, that's our total spend through free cash flow break, well, through EBIT to breakeven in this case, and that will be spread depending when the markets launch you'll see that spread. But you need to remember that the majority of that is in the first quarter or so, first couple of quarters because the markets turns around pretty quick.

Tom Green - *JPMorgan Chase & Company - Analyst*

Okay. Great. Thank you, guys.

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

Thank you, Tom.

Operator

Your next question comes from the line of Bill Busic. Please proceed.

Richard Cho - *Analyst*

Hi. This actually Richard Cho. I just wanted to follow-up a little bit and find out if the travel, the roaming product has any significant margin on it?

And also if we can get a little more color in terms of your gross adds, how many people are taking the new plans and if there's any difference in churn that you can tell, I know it's very initial but any color on that sense?

Nov. 09. 2005 / 5:00PM, LEAP - Q3 2005 Leap Wireless International Earnings Conference Call

And then if there's any other color in terms of the Cap Ex spend for next year, how much you might of the spend and the guidance go into the three buckets?

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

The three buckets.

Richard Cho - *Analyst*

Legacy, new markets and kind of the EV-DO.

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

Oh, I gotcha. Okay.

The roaming product, we think it's early to say whether it will be a substantial margin contributor. We want to get a little bit further into that. So at this point, we don't have any specifics on that.

We're focused on getting the product into our customers' hands, not with, and certainly not subsidizing in that over the next year or two we will continue to improve our performance like we've done with long distance, text messaging, we've done it a variety of different times and feel comfortable with our rollout model on that.

On the second question, I'm going to come back to that.

On the Cap Ex spend for next year, it includes, I can give you two buckets. Roughly the existing markets have typically been around \$100 million. So the new market spend is just 410 to 400 or 310 to 400, excuse me, is on the new markets, and the EV-DO breakout.

We have not given a breakout yet and may not be giving a specific breakout on EV-DO. It's been included on our new market and our new market spending plan.

And then the last question, or the second question you asked. Our uptake is strongly weighted towards our higher-priced rate plans and our, so we haven't given exact percentages, but I think some of the questions that have been asked have pointed that out that you see nice uptake on the higher-end rate plans when you look at how our revenue has been advancing.

You do need to adjust that there was \$1 of the change, of the \$3.25 as the accounting for mail-in rebates that's not present this time.

Richard Cho - *Analyst*

And I guess following up with that. Is that dollar going to be seen in later quarters? And was there anything else that were kind of one-time items in the quarter for the ARPU? Or --

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

Well, the dollar was from a year ago, so the non-mail-in rebate year-over-year increase was \$2.25. And a dollar of the increase was less mail-in rebates. So there's no anomalies coming on that other than the Company will from time to time use mail-in rebates and, you know, as we get into our calls, we'll outline what the effects of those have been.

Nov. 09. 2005 / 5:00PM, LEAP - Q3 2005 Leap Wireless International Earnings Conference Call

So I think other than that, we have been discussing that we thought the Company was going to experience nice trends on the ARPU line and we don't believe necessarily that things are going to go through the roof. I mean I don't want to create an expectation of ARPU of continuing to go up at that rate, but we believe that there will be increasing ARPU for a few more quarters.

Phil - - *Analyst*

Hey, guys, it's Phil. Can you hear me?

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

Yes.

Phil - - *Analyst*

Sorry, on a cell phone. But I want to follow-up on Richard's first question though. The \$3 for a few minutes of roaming at \$0.16 a piece, is that a positive margin on that \$0.16 or are we taking a little loss in order to get some retention?

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

Well, it's a breakage space model. So I won't, we're not going to subsidize roaming, but what the final economics on breakage space models are sensitive to usage because you get 30 minutes and a month to use them and you can buy another 30 minutes the following month, not unlike what we did when we announced our first long distance bundles.

So I can't give you any specific numbers on what our roaming cost is, but we do not anticipate having any substantial subsidies of our roaming products.

Phil - - *Analyst*

Okay. Thanks.

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

And thank you, Phil.

Operator

Your next question comes from the line of Tim Lash of Third Point Capital. Please proceed.

Tim Lash - *Third Point Capital - Analyst*

Hi, guys. Congratulations on another strong quarter and outstanding items for '06. I think you cleared the street bar by a fairly large amount for '06. So congratulations on that front.

You mentioned that there was some handset logistic costs. Could you refresh my memory as to what exactly went on with handset logistics costs and whether or not there's, where you see that trend going?

Nov. 09. 2005 / 5:00PM, LEAP - Q3 2005 Leap Wireless International Earnings Conference Call

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

Dean, do you want to?

Dean Luvisa - *Leap Wireless International - Acting CFO, Treasurer*

Yes, sure, Tim.

During the quarter, we replaced the reverse logistics vendor, which is a handset repair vendor, and incurred some costs related to that that changed the quarter a little bit. I think in general, and this is kind of tying back to Todd's question about the overall equipment cost, we did report in the press release that about \$4.9 million of costs is a net cost from handsets unrelated to initial customer acquisitions.

So kind of the unusual item and it does vary a little bit quarter by quarter based on the handset upgrades that we see, but it primarily, or the one-time item in this quarter was a change in reverse logistics vendors.

Tim Lash - *Third Point Capital - Analyst*

And that was about 4.9 million?

Dean Luvisa - *Leap Wireless International - Acting CFO, Treasurer*

It wasn't, I don't want to break out the specific numbers associated with it, but there's really, there's three parts associated with the handset replacement program. There's the insurance program that we have for our customers. There's also warranty facilitation costs, which is the cost of taking handsets that are under warranty and getting them back to the vendors.

And then the third piece is handset upgrades and that's for our customers, existing customers who choose to upgrade their handsets, and we do have, we vary the amount of benefit that we give to the customers for upgrading their handsets quarter by quarter.

Tim Lash - *Third Point Capital - Analyst*

Okay. And then just last question.

You've done a good job, like, targeting niche products to niche segments and really tailoring the products to fit their specific needs. What do you see in the senior market opportunity, and, you know, what's the potential there in your markets?

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

You know, Tim, it's kind of early to tell, but we saw an opportunity specifically in Pittsburgh where we launched this. As I've mentioned previously in previous calls, we do a lot of work to try to look at the demographics and psychographics of a market.

Pittsburgh tended to have a pretty significant senior population. It's one that, again, from our mantra is serving the underserved. Another one of those underserved markets that we wanted to test in trial, much too early to tell. We just started with a launch, but, you know, it's going to be very interesting to watch to see how that develops.

Nov. 09. 2005 / 5:00PM, LEAP - Q3 2005 Leap Wireless International Earnings Conference Call

Tim Lash - *Third Point Capital - Analyst*

Okay. Well congratulations, guys, good quarter.

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

Thank you, Tim.

Operator

And your final question from Mike Betts of Eagle Capital. Please proceed.

Mike Betts - *Eagle Capital - Analyst*

Hi, guys. I've got a number of questions that haven't been answered yet. Everybody there?

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

Yep. How are you, Mike?

Mike Betts - *Eagle Capital - Analyst*

Fine, thanks. Regarding the G&A expense, am I correct to understand that if I took out, other than the SOX and the Auction 58, that you would have had a relatively flat G&A expense for the quarter compared to the quarter before?

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

Yes.

Mike Betts - *Eagle Capital - Analyst*

Okay. And then of the \$5 per covered POP that's for the initial launch expenses and working capital, how much of that is actually going to be expense?

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

Most of it comes to the expense line, so --

Mike Betts - *Eagle Capital - Analyst*

Almost all of it?

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

There's, we are trying to fine tune the working capital impact comes from loading the channel with handsets right when you launch, and we are trying to fine tune our model on how we're going to optimize that. So I think we need a few more launches

Nov. 09. 2005 / 5:00PM, LEAP - Q3 2005 Leap Wireless International Earnings Conference Call

before we're going to be able to give you a detailed breakout between how much of it is operating and how much is working capital.

But you're going, it's more operating than working capital. I can -- substantially more.

Mike Betts - *Eagle Capital - Analyst*

Substantially, okay. And going back to the SOX expense, how much SOX expense has there been prior to this quarter in the numbers?

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

It's been fairly limited.

Mike Betts - *Eagle Capital - Analyst*

Was there any last year?

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

No, there was none last year.

Mike Betts - *Eagle Capital - Analyst*

None last year and what sort of run rate do you think that expense will be for this year and going forward?

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

Well, Glenn highlighted in his script that we think there's two more quarters bearing up under the SOX expense. There's two or three elements to it.

There's the actual systems work that we're doing. There is the testing and validation work. And then there's the actual audit, and we're trying to do it as efficiently and as straightforward as we can do it. It is an interesting regulatory environment to comply with.

Mike Betts - *Eagle Capital - Analyst*

But is that running at a \$5 million-a-year run rate which is not uncommon for many companies?

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

We have not given guidance specifically for what year two numbers look like. But would expect that our first-year number may be as much as \$10 million to move us through, and then we would expect it would drop back down from that substantially.

Nov. 09. 2005 / 5:00PM, LEAP - Q3 2005 Leap Wireless International Earnings Conference Call

Mike Betts - *Eagle Capital - Analyst*

And that first year is this year? Is that right?

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

We're in the process of doing it this year, and we'll have expenses associated with it in the third, fourth, and first quarter of next year.

Dean Luvisa - *Leap Wireless International - Acting CFO, Treasurer*

Mike, I should point out that the 10 million includes capital expenses as well as expenses from the income statement.

Mike Betts - *Eagle Capital - Analyst*

So do you have an idea of how much is hitting the income statement this year just from SOX?

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

Roughly about half of that number or so.

Dean Luvisa - *Leap Wireless International - Acting CFO, Treasurer*

3 to 5.

Mike Betts - *Eagle Capital - Analyst*

3 to 5 would be this year and then that would drop next year?

Dean Luvisa - *Leap Wireless International - Acting CFO, Treasurer*

Yes.

Mike Betts - *Eagle Capital - Analyst*

Okay. That's all I had. Thank you.

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

Thank you. I guess a couple more questions. Jim, do you want to take the remaining two questions? Mika, if you can keep the line open we'll take the last two callers.

Operator

Yes, sir. Your next question comes from the line of Ryan Kilow of [Brenquoi]. Please proceed.

Nov. 09. 2005 / 5:00PM, LEAP - Q3 2005 Leap Wireless International Earnings Conference Call

Ryan Kilow - *Brenquoi - Analyst*

Congratulations on a great quarter, guys.

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

Thank you, Ryan.

Ryan Kilow - *Brenquoi - Analyst*

I definitely appreciate, it looks like a pretty strong outlook going forward. I just want to say congratulations.

I wanted to ask a quick question regarding the JV that was announced with CSM and WLCPS management. Given the private equity firms backing those entities and their cross ownership with Metro PCS, just kind of wanted to talk about whether or not consolidation discussions have potentially accelerated or if they started given the complimentary nature of your wireless network and theirs.

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

Well, the Portland JV includes Columbia and MC Ventures who have had, are active in a number of areas of this wireless model that we're involved in, and so we're excited to be partners with them in building that Northwest market cluster. We think it's a great opportunity.

And in addition, the Portland joint venture also includes Scott Anderson and Scott Jarvis will be working together as well amongst some other people. So it's a nice group of people that have a long track record of creating shareholder value.

We have a lot on our plate. We have a of tremendous growth opportunities in front of us. I was completely sincere when I said I am excited about what's in front of us.

I'm sure we'll have our challenges and I'm sure we'll have things that we'll have to work our way through, but we've got a lot of value creation for us to do and we're pretty excited about it. And I think there's others in the industry that have similar value creation opportunities as well.

With that said, we work for the shareholders and it's incumbent on us to look at all the avenues to create value and we'll continue to look at whatever that might be as we look ahead.

Ryan Kilow - *Brenquoi - Analyst*

Okay.

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

Any others? Ryan, was that it?

Operator

Your final question comes from the line of Tony Brown of SunTrust Capital Markets. Please proceed.

Nov. 09. 2005 / 5:00PM, LEAP - Q3 2005 Leap Wireless International Earnings Conference Call

Tony Brown - SunTrust Capital Markets - Analyst

Good evening.

Doug Hutcheson - Leap Wireless International - CEO, President

Hi, how are you?

Tony Brown - SunTrust Capital Markets - Analyst

Good. How are you? Great quarter

Doug Hutcheson - Leap Wireless International - CEO, President

Thank you.

Tony Brown - SunTrust Capital Markets - Analyst

I have a question around the 2006 Cap Ex. What is the financial strategy of raising capital for that?

Doug Hutcheson - Leap Wireless International - CEO, President

Well, the balance sheet currently has \$392 million of cash on it as of the end of the third quarter. And the business has typically if I use this year and say we did the low end of our guidance and funded all of our capital, you'll see on an annual basis we're producing a little bit north of \$200 million.

So one of the reasons that Dean highlighted that we think for the build-out was the management flexibility that we have that we're adequately positioned right now is between what we're seeing the business produce and the cash that we have on the balance sheet. We think we have generally got ourselves in a position to absorb that with the current resources.

With that said, you know, we'll continue to look at what all of the capital market flexibility is that we have, and try and make sure that we're prudent in our actions.

Tony Brown - SunTrust Capital Markets - Analyst

Okay. Thanks a lot.

Doug Hutcheson - Leap Wireless International - CEO, President

You bet. Is that it? Mika, any additional callers on the queue?

Operator

We have one final question from the line of Eduardo Lupavari of JP Morgan.

Nov. 09. 2005 / 5:00PM, LEAP - Q3 2005 Leap Wireless International Earnings Conference Call

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

Eduardo, why don't you come on line and then we'll finish for today.

Eduardo Lupavari - *JPMorgan Chase & Company - Analyst*

Thanks a lot for taking my question. I have a couple that I don't think have been asked yet.

One of them being, there's been a lot about T-Mobile's new 1500 minutes plan competing potentially with Cricket. I was hoping you could maybe comment on what your thoughts are on this and whether or not you've seen some impact on market share?

And the other thing is, you've commented on what operations in Fresno are showing so far. But I was curious as to whether you've seen a change in the demographics of your customer base there? In other words, have you seen a certain type of customer signing up in Fresno that has not traditionally been part of your niche target customer, and has this been also the case in the neighboring markets?

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

Yes, well, let me take the second question first and start out with we love our customer base.

We're excited about continuing to build products and services around where we are and think that we have a model that uniquely positions us to be able to service this customer base and generate good shareholder return. And at this point, we do not have any detailed demographic data, differences about Fresno customers or how it's changed things, but we're pretty, based on what we see we think we're pretty excited that we continue to build a nice strong position in this niche that we're in.

You know, as far as any new entrants that's out there, we're in a competitive marketplace, and whether it's one carrier's pricing plan or another, at this point, we haven't seen a particular pricing plan impact us. The plan that you mentioned is a contract, termination fees, used to have other free aspects to it like nights and weekends and all the other things that don't qualify as simple and worry-free.

I think there's a little bit better than 40,000 minutes of difference between the two plans on an availability basis. I don't, I think that we feel that we've built a lot of momentum and are looking forward to getting on with what we've got and the customer focus that we've got. So with that, we look forward to pushing ahead.

Eduardo Lupavari - *JPMorgan Chase & Company - Analyst*

Thank you.

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

Thank you.

With that, I want to thank you for joining us on our call today. As you can tell, we are encouraged by the solid results of the third quarter. I hope that you have come away from our call today with a good understanding of how we are shaping our future as we execute on our opportunities for expansion and profitability we see before us.

On behalf of the employees, officers, and directors of Leap, we thank you for your interest and continued support. We are looking forward to talking to you again at our year-end conference call.

Nov. 09. 2005 / 5:00PM, LEAP - Q3 2005 Leap Wireless International Earnings Conference Call

If you have any further questions about our results for the third quarter or need additional clarification, please feel free to contact Jim Seines, Director of Investor Relations at 858-882-6084. And thank you.

Operator

Once again, ladies and gentlemen, we thank you for your participation in today's conference. This concludes the presentation. You may now disconnect. Have a great day.

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