FINAL TRANSCRIPT

Thomson StreetEvents℠

LEAP - Q2 2005 Leap Wireless International Earnings Conference Call

Event Date/Time: Aug. 11. 2005 / 5:00PM ET

CORPORATE PARTICIPANTS

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

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

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

Albin Moschner
Leap Wireless International, Inc. - EVP, CMO

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

CONFERENCE CALL PARTICIPANTS

Tom Lee
JP Morgan - Analyst

Todd Rethemeier
SurTerre Research LLC - Analyst

Richard Prentiss
Raymond James - Analyst

Phil Cusick
Bear Stearns & Co., Inc. - Analyst

Romeo Reyes
Jefferies and Company, Inc - Analyst

Tim Lesh (ph)
Third Point Management - Analyst

Jonathan Atkin
RBC Capital Markets - Analyst

Ethan Schwartz
CRT Capital Group LLC - Analyst

Vince Walden (ph)
Thornberg - Analyst

Even Mowell
Criterion - Analyst

PRESENTATION

Operator

Good day, ladies and gentlemen, thank you for standing by and welcome to the Leap Wireless International second quarter 2005 earnings conference call. My name is Carlo and I will be your coordinator for today's presentation.

[OPERATOR INSTRUCTIONS]

I would now like to turn the presentation over to your host, Jim Seines, Director of Investor Relations. Please proceed, sir.

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

Thank you, Carlo, good afternoon and welcome to Leap's second quarter 2005 conference call. This call is being recorded and will be available for play back in the U.S. through August 18th by calling 1-888--286-8010. Callers from outside the U.S. will need to dial 1-617-801-6888. The pass code for both calls is 645-593-79.

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

Regarding upcoming company events, we have confirmed our attendance of the Jeffries Third Annual Communications and Media Conference in September, and are 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 second 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 and Treasurer. Following our prepared remarks, Carlo will come back online 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 confirm to generally accepted accounting principles, or GAAP, in the U.S., such as cost per gross addition, or CPGA, cash cost per user, CCU, and adjusted EBITDA in calculated contribution per user per month. Any non-GAAP financial measures presented by the company during today's call should be considered in addition to, but not a substitute for, the information prepared in accordance with generally accepted accounting principles.

For GAAP reconciliation of the non-GAAP financial measures discussed today, please access the financial reports page of the Investor Relations section of Leap's website, www.LeapWireless.com. Today's conference call is preceded by an earnings release for the second quarter. This release has been distributed on the news wire 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 the earnings press release.

Before we start, I would like to remind you that statements made today that are not historical in nature, including any states about our expectations regarding future event's 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.

Our actual results could differ materially from those stated or implied by such forward-looking statements,due to the risks and uncertainties associated with that 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 second quarter of 2005, which we expect to file shortly. In our quarterly report on 10-Q for the three months ended March 31, 2005 and in 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.

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

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

Thank you for joining us today as we provide an update on our business for the second quarter of 2005. As we announced in our earnings release today, the company had a solid quarter that continues to reflect broadly improved performance across our operations, including strong year-over-year growth in total revenues and record adjusted EBITDA.

During today's call, we'll cover our operational and financial performance for the second quarter, provide an update on our progress in preparing for the launch of new markets, and review our business strategy and outlook for the full year. Since our last call in June, the company has achieved the following major business objectives. First we introduced Travel Time, our new roaming product to all markets by June 28th, completing the launch of all of the product initiatives planned for the first half of 2005 on schedule.

Second, we celebrated our listing on the NASDAQ national market on June 29th.

Third, we expanded our Central Valley cluster with the launch of service in Fresno, California, on August 2, our first new market introduction in over three years.

Fourth, we increased the amount of our term (loan) under our senior secured credit facility by 100 million and signed an amendment to the facility providing financial flexibility to support our planned strategic growth.

And lastly, we completed the previously announced sale of assets to Verizon Wireless at a sales price of over $100 million. We are pleased with the continued dedication and achievements of our employees as we are taking action on a range of activities firmly grounded in a customer-centric and value creating philosophy designed to support our long-term growth strategies.

This continued execution on our business objectives is also reflected in the strong financial performance we delivered for the second quarter. Highlights from our quarter include solid progress in accelerating our top line revenue growth with an increase in service revenues to nearly $190 million, an improvement of almost $4 million from the previous quarter and $18 million over the same period last year, record adjusted EBITDA for the second quarter of over $74 million, representing an adjusted EBITDA margin of 39% based on service revenues and lastly, net income of $2.5 million or $0.04 per diluted share, representing a $20.6 million improvement over the consolidated net loss of $18.1 million, or $0.31 per diluted share for the second quarter of 2004.

We believe that the results we have reported today reaffirm the underlying strength of our business model and the value creating potential that exists within our particular customer market segment. Our business provides service to a customer [leash] that other carriers have not successfully serviced and an ARPU roughly two-thirds the industry average.

We also acquire customers at a much lower cost and deliver over twice the number of minutes per month at a cash cost per user that is substantially lower than that of other wireless providers. I am particularly pleased with our performance on a measure of subscriber economics that sums together the net effect of all these factors, including churn, our calculated contribution user per month. That metric for the second quarter increased by nearly $2 to $15.43 compared to the same period in 2004 and is competitive with traditional contract-based wireless carriers. The company is clearly performing well.

Given the strong financial performance of our business over the past two quarters and yearly trends we are seeing in the second half of the year, we have revised our outlook for 2005. This includes tightening our expectations for 2005 towards the upper end of our previous range and raising our guidance for 2005 adjusted EBITDA. It's appropriate to point out that our business is seasonal with the traditionally strong first and fourth quarters and less robust activity in the mid-year, particularly in our customer activity metric.

We have tightened our outlook for net additions and churn during 2005 to reflect our expectation for improvements in our customer retention and net growth later this year as our new initiatives begin to gain traction in the marketplace. While the trends are good and the new products show promise, we are not likely to achieve the high-end of customer activity ranges originally provided to you over nine months ago.

We are optimistic about the long-term growth prospects of our business. Over the past year we have significantly strengthened the cash flow generating capability of our core markets and acted upon the opportunity to expand our operations through the acquisition and planned launch of Auction 58 properties, creating a compelling growth opportunity for our company.

In the coming months, we expect to build on the strength of our business with further refinements of our product portfolio, added emphasis on the expansion of our distribution and payment locations, and also plan to take additional steps that are expected to position the business for continued growth in 2006.

During today's call, Dean will discuss our financial results, Al will discuss our customer's product and acquisition metric progress, and Glenn will discuss our monthly service costs and auction 58 market launches. I will return at the end of the call to provide an update to our strategy and outlook. Dean?

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

Thank you, Doug.

As Doug indicated we had another quarter of strong operating performance, producing $227 million in total revenue and approximately $74 million of adjusted EBITDA. This quarter's results compared to the same quarter last year demonstrates a significant operating leverage of our business model, with over 70% of the improvement in service revenue flowing through to adjusted EBITDA. Our adjusted EBITDA for the second quarter represents an increase of approximately $13 million, or 21% over the same period last year, and approximate $4 million, or 6%, over the first quarter of 2005.

The increase was driven primarily by growth in service revenue, coupled with effective underlying cost control. Our adjusted EBITDA margin as a percentage of service revenue was 39% for the quarter. Total revenues increased 10% compared to the same quarter last year. Service revenues increased nearly $18 million due to a higher number of total subscribers, increased penetration of our high-end rate plans and a reduction in service-related promotions.

Equipment revenues increased $3.4 million from higher handset sales volumes. Total operating expenses for the quarter were $218.3 million, including an impairment charge of $11.4 million and stock-based compensation expense of $7.1 million.

Operating expenses for the quarter were $2.4 million lower than operating expenses in the second quarter of 2004. G&A expense increased $8.5 million from the same quarter last year, due primarily to the inclusion of stock-based compensation of $5.6 million and increases in legal and professional services costs, including incremental audit and SOX 404 implementation expenses. The stock-based compensation expense that we recorded in the second quarter related to the grant of restricted stock and deferred stock units to our employees.

Of this amount, $6.9 million related to the deferred stock units, which were immediately vested upon grant. The amount the stock-based compensation expense for the reminder of fiscal year 2005 is expected to be approximately $4-5 million. Our reported stock compensation expense does not include the impact of expensing options under FAS 123r, which we expect to implement in 2006.

Depreciation and amortization expense for the second quarter of 2005 declined by approximately $29 million from the second quarter of 2004, to just over $47 million. This reduction resulted primarily from the reassessment of useful lives of network equipment and the reduction in the carrying values of property and equipment as a result of fresh start reporting. This was partially offset by amortization expense of $8.6 million related to tangible assets recorded in connection with fresh start reporting.

Additional information regarding these changes in depreciation amortization are described in more detail in our most recent SEC reports on form 10-K and 10-Q.

In the second quarter, we recognized an impairment charge under FAS 142 of $11.4 million associated with the anticipated sale of non-operating spectrum licenses covering approximately 900,000 licensed POPs. We have agreed in principal to sell these licenses for approximately $10 million. We expect to provide further updates on this transaction, as appropriate.

Interest expense for the quarter was $7.6 million, reflecting the interest associated with our $5 million term loan. During the third quarter, we expect to pay interest at a rate of 6.5% per annum, on the term loan, after taking into account the effect of interest rate swaps we have entered into, covering $355 million of the debt. The interest expense reported on our income statement going forward is likely to be less than the cash interest we pay, because we expect to capitalize a portion of our interest expense in accordance with GAAP, while we build-out the markets acquired in Auction 58.

The provision for income taxes for the quarter reflects a benefit of approximately $400,000 as a result of recording the tax effect of the wireless license impairment as a discrete item in the quarter. We expect to pay only minimal cash taxes in 2005, primarily due to tax deductions associated with the re-financing of our indebtedness in January of this year. The company reported net income of $2.5 million or $0.04 per diluted share for the quarter.

Moving to the balance sheet, the total unrestricted cash, cash equivalents and short-term investments increased to approximately $158 million during the quarter, an increase of $36 million from the prior quarter. The increase resulted primarily from cash flow from operations offset by capital expenditures of approximately $21 million and the approximately $25 million paid during of the quarter to complete the previously announced purchase of the Fresno wireless license.

As Doug mentioned in his introduction, we strengthen our balance sheet substantially by the end of the second quarter -- after the end of the second quarter. In July we amended our credit agreement to increase our six-year term loan by $100 million, from $500 million to $600 million. We also modified several terms of the agreement to accommodate our planned expansion as we and AMB1 build up the Auction 58 licenses that have either been acquired or are expected to be acquired, pending FCC approval.

In addition, last week we completed the previously announced sale of our Michigan operating markets and 23 licenses to Verizon Wireless for $102.5 million. This sale also included the transfer of approximately 19,000 customers. While the transfer of these customers will be reflected as a net reduction in our end-of-period customers during the third quarter, they will not be included in either the net customer addition or trend statistics we'll report for that period.

Taken together, the additional $100 million term loan and proceeds from the sale of assets to Verizon Wireless added approximately $200 million to our cash balance in the last few weeks.

We have made significant progress in improving the technical accounting expertise in our accounting department. We instituted additional account reconciliation and implemented revised controls over lease accounting. As a result, we believe we have remediated three of the material weaknesses in internal controls that we identified in our 2004 10-K and last quarter's 10-Q and we expect to remedy the remaining material weakness during the second half of this year. We will provide additional detail on the actions we have taken to correct these weaknesses in our second-quarter10-Q, which we expect to file in the next few days.

Lastly, I would like to take this opportunity to recognize the efforts of our new Controller, Grant Burton. His hard work is readily apparent in the progress we have made towards remediating our previously announced material weaknesses, and I would like to personally thank him and his accounting team for their contributions. I would now like to turn the call over to Al to discuss marketing, product development, and customer activity. Al?

Albin Moschner - *Leap Wireless International, Inc. - EVP, CMO*

Thanks Dean, and good afternoon to all of you. During the first half of 2005, we concentrated our efforts on taking the necessary steps to create product and retention programs to support our future customer growth. The areas we have addressed run across all facets of our operations from evolving our products and services to better meet the current and future needs of our customers to how we market our service and care for the customers throughout their tenure.

We believe these efforts are beginning to bear fruit, as indicated by our gross subscriber addition performance. Gross additions for the second quarter were approximately 191,000, a 6% increase over the 180,000 gross additions we reported a year ago. Although gross additions declined from the first quarter by approximately 5%, this expected seasonal trend was not as pronounced as last year, which saw a sequential decline of 13%.

Net additions for the second quarter were approximately 3,000. Our net customer growth continues to reflect the overall impact of a higher relative churn rate, which for this period 3.9,%, two-tenths of a percent higher than the 3.7% we reported in the second quarter of 2004.

As we have described in previous conference calls, the most significant factor leading to a customer's decision to deactivate from our service is their desire for additional functions and features in our core products. As you can see from our recent announcements, we have delivered on the product development goals established for the first half of this year, including, as Doug mentioned, the introduction of our Travel Time roaming product in all of our markets by the end of June.

Our goal for the second half of 2005 is to push these new products and services into the customer base, while strengthening our marketing and customer service initiatives and expanding our distribution channels for both our core Cricket service and our new Jump pre-paid product. We remain confident that the broad scope of our endeavors will continue to strengthen Cricket's position in the marketplace.

We will likely take several quarters for these activities to achieve a significant role in our business, however. While we continue to pursue the activities and tended to improve our operational performance, it's appropriate to point out that our business is still impacted by the seasonal trends seen in the past. It should therefore not be a surprise that the third quarter could be impacted by the seasonal peak and churn we had seen historically.

Moving on to our other operational metrics -- the modifications made to our current -- I am sorry, to our rate plans for the first half of the year -- combined with our swift -- shift away from service-based mail-in rebates, continue to positively impact our customer economics. Average revenue per user per month for the second quarter was $39.24, an improvement of almost $2.00 above the current quarter of 2004 and a sequential improvement, $0.21, compared to the first quarter of 2005 despite the increase in churn, we was relative to the first quarter.

As indicated in our last conference call, we expect to see some continuing upward pressure on ARPU as usage of our new products and services increases and we see strong customer adoption of our unlimited service plans become a larger portion of our business. As outlined for you last quarter, we expect to offset some of this anticipated ARPU improvement by implementing initiatives to stimulate growth and improve customer retention, thus positively impacting our overall customer economics.

A few examples of these initiatives including the potential reduction of certain fees charged to our customers, and selectively subsidizing the introductory use of our new functional capabilities, thereby accelerating customer awareness and adoption. Our focus on balanced growth continues to be apparent in our cost per gross addition, or CPGA, which was $138.00 for the quarter, a decrease of $3.00 year-over-year.

Sequentially, CPGA increased $10.00 over that reported for the first quarter, due primarily to an increase in marketing expenses associated with the launch of our new brand campaign in April and the seasonal change in the level of gross additions during the quarter. We are confident that this metric will remain below $150.00 level for the year given the current trends we are seeing in top line customer growth.

As we announced last week, we launched service in Fresno, California, our first market in over three years and the anchor to our new Central Valley footprint which includes the surrounding markets of Modesto-Merced to the north and [Vicella] to the south. The entire region now represents one local calling area, allowing customers in the area to make toll-free calls from one end to the other, adding significantly more value to the service plans of our existing customers. While it's still early, and we are not yet in the position to provide specifics, I am pleased to report that initial customer response is significant expanse -- expansion -- is ahead of our expectations.

We believe this launch will serve as an important validation point for growth strategy and we look forward to providing more details on our new markets in future conference calls.

As we move forward into the second half of the year, we continue to build upon the momentum we have established to date. We have significantly strengthened our marketing department, bringing on board two industry veterans, Linda Wokoun, our new Senior Vice President, Marketing and Customer Care, and Fernando Corona, our new Vice President, Channel Development.

Both of these individuals bring with them a wealth of experience and on behalf of the company I would like to welcome them to the team We continue to enhance the functionality of our unlimited MMS service, through the expansion of our intercarrier messaging capability. a result of our recent reciprocal messaging agreements with Cingular and U.S. Cellular.

Customer usage of this service continues to grow rapidly and we are working to add more messaging partners later this year. We are moving forward with the planned distribution expansion of our pre-paid service jump. We are encouraged by what we have seen, monthly minutes of use is about a third of that of our unlimited core products and we have yet to see any measurable cannibalization of these products. We are in the process of establishing unique distribution for jump, highlighting our new product packaging and introducing other planned product improvements.

We have identified over 2,000 potential doors for this product and we are working hard to bring as many as possible on board by the fourth quarter.

Last quarter, we outlined our strategy to expand our distribution channel with the introduction of exclusive premiere dealers. We are making excellent progress on this front. As of the end of the second quarter we had 18 of these dealers in place, and we expect to have approximately 100 premiere dealers either in place or in process by the end of the year.

Coincident with the launch of the Fresno market, we introduced the first flip phone handset in our most affordable phone category, the Kyocera Milan. In the next several weeks we expect to follow this with another handset, the Kyocera Dorado, introducing blue capability into our good category for the first time. thus enabling Cricket's largest class of phone sales to access the broad range of applications available under our Cricket Clicks data service.

Overall, we are pleased with the tremendous progress we are making on multiple fronts. We are beginning to see signs of positive customer acceptance of the new products and services introduced in the first half of the year. While the full effect of these initiatives will take some time to build we remain confident about the direction in which we are heading and we are looking forward to a strong finish by year-end.

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

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

Thanks Al. Before moving on to our market expansion efforts, I would like to take a look at the progress we have made in the second quarter, highlighting our performance in a few key areas. Our total non-selling cash cost per user per month, or CCU, for the quarter was down sequentially dropping over $0.50 to $18.43 from $18.94 in the first quarter of 2005.

CCU also improved on a year-over-year basis down slightly from the $18.47 reported for the second quarter of 2004. While we expect to see upward pressure on CCU due to increased customer demand for features and services and expenses associated with our SOX 404 compliance efforts and our new operations in Fresno, we have redoubled our efforts to look for cost savings in our core activities.

As a result, we are continuing to work on least cost long distance routing including the utilization of Voice Over IP where feasible, reducing the cost to support local number portability, improving our handling of customer care call through our interactive call response systems, and routing multimedia messages directly to other carriers rather than passing the traffic through higher cost clearinghouses.

We expect these improvements to enable us to maintain CCU below $20.00 for the remainder of 2005, even after absorbing the costs associated with SOX implementation and the launch of the Fresno expansion to our Central Valley cluster. Speaking of which, I am very pleased with the performance of our network ops team and the strong network they put into place at launch. When the network build is complete, we will have added 87 new cell sites to the Central Valley, increasing the total number in that region to 174.

These additional sites effectively double the number of covered POPs in this new market cluster to 2.1 million and increase the coverage area from 3600 square miles of non-contiguous coverage to 6200 square miles of contiguous footprint. To put this into perspective, this new Central Valley footprint represents the largest in Cricket's portfolio and is nearly three times larger than our next largest region in Denver and northern Colorado. The population density in this area is also strong with 12,000 covered POPs per cell site, which ties to the efficiency of this new network.

As previously discussed, we anticipate total capital expenditures for this build-out to be in the range of $20-$25 per covered POP. We also expect additional costs from working capital and operating losses through cash flow break-even to be less than $8 per covered POP. We expect to provide further updates on these cost metrics in our third quarter conference call.

Looking ahead, we are moving forward with the launch planning for the Auction 58 markets. RF engineering is well underway and we are researching locations, lease and implement costs for switch, cell site and store facilities. And in some cases we are entering into letters of intent and development agreements.

Under a management services agreement, we are also providing planning and management service to [A&B One] with respect to the build-out and launch of the licenses it expects to acquire in relation to Auction 58. We are currently developing plans for such build-outs and expect to fund the build-out and initial operation of the licenses that [A&B One] expects to acquire. We believe that we are on schedule to launch most our new markets and to assist [A&B One] in launching most of the new markets they expect to acquire by the end of next year.

Together, these markets are expected to cover 14 to 17 million covered POPs by the end of 2006, depending on launch timing, and the determination of our final coverage footprint. We continue to work with infrastructure providers to obtain good pricing and are on track to make our total capital expenditure guidance of 175 to $230 million for 2005.

It should be noted that the wide range of our Cap Ex guidance for 2005 reflects expanding development cost of the Auction 58 markets at the end of the year. In addition, this guidance does not include capitalized interest. We expect to provide additional information on the new markets as they begin to have a meaningful impact on the Company's overall financial performance. Now I would like to turn the call back over to Doug.

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

Thanks, Glenn.

As you can see, we are moving ahead on a broad range of activities designed to further strengthen the company's position and we are generating good results in the process, as indicated by another quarter of solid year-over-year growth and top line revenue and adjusted EBITDA margins on service revenue of close to 40%.

Our business has significant growth opportunity available, both in our core markets and within the new markets. Given the demonstrated cost leverage of our business, we believe this growth will provide further advantages of scale that will allow for additional margin growth over time. I believe it's important to recognize the power of our business strategy as the high value, low cost leader in the wireless industry. On our previous conference call I drew an analogy between the airline industry and our business. The similarities remain as standout performance in the segment has continually come from low cost providers. We too, focus on low cost, high value position as a winning long-term strategy.

One question that I hear frequently from the investment community is why can't a major carrier do the same thing as you? It's interesting that this same question has been asked since the launch of our first Cricket market in 1999.

I think the more appropriate question really is, can a major carrier do the same thing as you do, make money and avoid cannibalizing their high ARPU customers in the process? We sell our minutes, including voice, long distance and other value-added products for about $0.025 per minute in an industry that averages about $0.07 per minute, excluding rolling revenues, hence, our yield per minute is approximately 35% of that generated by traditional contract-based wireless carriers.

On the other side of the equation, we produce other minutes at a total cost of about $0.012 in an industry where other carriers' costs range from $0.03 to $0.05 per minute. At that level, we sell our time for less than it costs other carriers to produce. Also, to the degree competitive carriers look at this business model on a marginal cost basis, we continue to have a significant advantage. Our marginal cost per minute in existing markets runs about $0.005 per minute. If you assume the same relationship for other carriers, the implied marginal cost would range between $0.015 and $0.025 per minute.

We don't think traditional providers are likely to find this attractive, especially considering this marginal cost on an incremental minute does not include the costs associated with acquiring what has typically been considered a less profitable customer. Add in the obvious cannibalization concerns and the incremental capital required to support a doubling of the average customer usage to 1500 minutes, and this is not likely to present an attractive economic return opportunity for these carriers.

While some have chosen to compete in this market segment with [inaudible] or pre-paid products, I'm convinced that by focusing on our product portfolio, we'll successfully attack these proportions with our high value, low cost service. Our strategy to move the company forward has four major components -- continuing top line revenue growth in our core markets, expanding the scale of our business to the addition of new markets, continuing our cost leadership, and building an increased understanding of our company in the capital markets.

I would like to take a few moments to update our progress and direction across these areas. First, we had solid top line growth in our core markets in the first half of the year through the execution of key initiatives that have facilitated both the increases seen in our ARPU and the improvements in our overall customer economics. The actions we have taken to support customer growth in our core business will take time to reach their full effect and we remain optimistic that we'll see improvements in retention and met customer growth later this year, as our new initiatives further gain traction in the marketplace.

Second, we have placed significant focus on our plans for the development of our new and existing markets during 2006 and we're making good progress. These new markets remain attractive due to their geographic, demographic and employment characteristics.

The early results of the Fresno launch have been encouraging, as we have seen solid execution by our launch teams and good early uptake by our customers. Previously we indicated that we expected to build out new markets for approximately $28.00 per covered POP, which, given the 14 to 17 million covered POPs anticipated in the new markets that we acquired, [AMBA A&B One] expects to acquire in Auction 58 results in total capital expenditures of 392 to 476 million. Now that we are further along in the planning process and have better cost estimates for implementation, we expect to be able to build out our new markets and A&B's expected new markets, and upgrade new and existing markets to EBDO to the extent appropriate at a cost of approximately $475 million or less.

Thus, the combined cost for the new market builds and for this upgrade to EBDO technology, with its ability to support potentially attractive content applications likely to be demanded by our customer demographics, is within the previous guidance for the construction of the new markets without EBDO.

Focusing on the third strategic area, the company has made continued strides forward on our cost management effort. We are focusing on systems process improvements that we'll offset some, but not necessarily all of, the costs associated with new products and services. We are confident that the array of initiatives we are pursuing will allow us to continue to build on our cost leadership position in the industry.

In addition, as the new markets are built and penetration increases, we believe that we'll realize benefits of scale that these new markets are expected to provide.

Finally, series of recent accomplishments in the capital markets, including the success [inaudible] to our senior secured credit facility and listing on the NASDAQ national market, recent closing of a sale of assets to Verizon Wireless and the potential sale of certain excess spectrum shows a series of positive steps forward on the business. We believe the potential for growth that exists within our business presents a compelling story for investors and we intend to be actively engaged in getting this message out in the coming months.

It is our goal to work with the capital markets to build investor understanding and confidence in our business. The company believe it's on the right track and has the right focus to build substantial value for our stakeholders in the coming years. In today's press release we updated our guidance for 2005. Our customer growth profile for the second half of the year remains promising and we have tightened our net additions for the year to a range of 125 to 175,000, reflecting what we believe will be a productive second half and lead in to 2006.

Additionally we are on track to meet or beat the high-end of our previously announced full year adjusted EBITDA guidance. As a result we increased our adjusted EBITDA guidance to a range of $265 to $285 million for 2005. This is outstanding, particularly when you recognize that increase in cash flow is expected to occur, even though we'll be absorbing the full cost of customer growth in the third and fourth quarters, without realizing the full benefit of the increased revenues associated with these customers who join us late in the year.

The company continues to be on the right track and I want to finish by recognizing the exceptional efforts of all of our employees and thank them for their outstanding financial performance this quarter. It's been a great year thus far, as we have worked together to transform medusas. Their collective and individual efforts have all contributed to this accomplishment and are very much appreciated. I also want to take the opportunity to recognize the continued contribution of Dean Luvisa as acting CFO and thank him for his contributions to the ongoing success of our business. I will now turn the call back over to Jim.

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

Thank you, Doug. Carlo, would you please come back online to review the instructions and open the Q&A portion of today's call?

QUESTIONS AND ANSWERS

Operator

Yes, sir, it will be my pleasure. [OPERATOR INSTRUCTIONS]

And sir, our first question is from the line of Tom Lee with JP Morgan.

Tom Lee - *JP Morgan - Analyst*

Hi guys. Thank you. Congratulations. I have been very impressed by the operating leverage you have in the business. I just need two clarifications from the quarter.

Number one, you didn't really give us much information on the launch of jump in the quarter, but we saw a pretty nice increase in revenue per customer. With jumping one-third the usage level, I was just wondering to what extent did that dilute ARPU in the quarter, and general numbers around that?

Secondly, I was really surprised with regard to your capital spending for next year. How are you able to squeeze in an EBDO upgrade into your previous capital budget? Is that because you are seeing better terms from vendors and does that also imply that we could maybe see further improvement as we get into sort of a build stage in terms of total cost? Thanks.

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

Let me take a shot at both of those and thanks Tom for your questions.

The first -- jump is still early. One of the things that we discussed is our focus on moving jump into the new distribution and our focus on that is to really put it in the places where pre-paid has been distributed traditionally. So we focused in on approximately 2,000 doors. We'll be moving those into those doors in the fourth quarter -- as many of those doors as we can.

There not much ARPU dilution at this point with jump, because it still plays a smaller role in our business and we expect that to increase in fourth quarter and into next year. And as it becomes a larger portion of our business, we'll start to give a little bit of guidance on it. What we have seen on ARPU is a continuing strong uptake on our higher-valued rate plans, in particular, the unlimited access plan. We have had a nice response on that plan, and that is witnessed in the 6% increase that we saw in gross activity.

On the capital expense, we certainly set out with that in mind and had been able to, first from our Fresno experience, been able to fine tune and learn how to optimize our build out. We have been able to start to find -- perfect our network designs to be responsive both to what we think our customers need and what we think optimizes our build. The new markets that we have selected have good market densities, and then, we have received a lot of good support from all of our vendors to help bring this together.

So we are anticipating and looking forward to be able to broaden our product expertise or our product portfolio, which we think is our focus area as we look ahead.

Tom Lee - *JP Morgan - Analyst*

Okay. If I could follow-up on what you commented on Fresno. I know you launched it on August 2nd and we didn't expect it to contribute to second quarter, so your net [inaudible] were essentially in line with our estimate of 5,000. But I'm curious, with the first week behind you -- a little more than first week on Fresno, could you give us some thoughts on early success, traffic, maybe just response in the market to your new launch?

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

As we said, actually, which recognizing that we are -- got Auction 58 ahead of us, was nice to see.

It succeeded our initial expectations. I don't think it's going to reshape our entire third quarter, one market, but from us getting comfortable that these new markets we are looking to bring on between now and the end of 2006 to see a nice response from customers, I think we found that to be good. We have had good store traffic, both in our new stores, the premiere dealers, and then we had implemented a much more refined distribution strategy in Fresno as well. And I think we have seen the results that we had hoped to on that.

The one piece is, we do want to remind people that we expect to see most of the cost related to Fresno fall in the third quarter. So you will see perhaps some benefit in the net add line related to that, but you will also see the launch cost affecting third quarters numbers, as well.

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

Thanks, Tom.

Tom Lee - *JP Morgan - Analyst*

Thanks, guys.

Operator

Your next question is from the line of Todd Rethemeier with SurTerre Research.

Todd Rethemeier - *SurTerre Research LLC - Analyst*

Thanks. Good afternoon, guys.

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

Hey Todd. How are you?

Todd Rethemeier - *SurTerre Research LLC - Analyst*

Okay. Two questions for you. One, could you give us any details on the uptake you've had with the new roaming product now that it's been out there for a little while? And second , do you see -- and I don't know if you track this -- but do you see anything different in terms of minutes of use for your new customers versus some of them who have been around a little longer?

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

Sure. Those are good questions. The roaming product uptake is pretty early. We are just a little over a month into it. It's focused on a limited set of our handsets right now.

And we expect to be doing some substantial new trialing on how we move it into our customer base later this quarter and early in the fourth quarter, so the initial results on usage and uptake have been promising, but it's still a pretty small percentage and I would expect that we would see several quarters before you would see it become a larger part of our business.

As far as the MOUs for new customers versus the existing base, there is a typical behavior historically, and I'm not going to project this forward, that as you get a new customer that you will see initially a little bit more usage and then they level out over time. But that spike in new usage is not dramatically higher, and overall what we are seeing is pretty flat usage at about 1500 minutes per month.

Todd Rethemeier - *SurTerre Research LLC - Analyst*

Okay. Thanks.

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

Thanks, Todd.

Operator

Our next question is from the line of Rick Prentiss with Raymond James.

Richard Prentiss - *Raymond James - Analyst*

Yes. Good afternoon.

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

Hi, Rick.

Richard Prentiss - *Raymond James - Analyst*

Couple of questions. Encouraging to see the year-over-year increase in [inaudible].

The question I have for you is what impact have you seen from the other operators offering family plans and your ability to keep [garner gross ad]? And also, could it be another reason why some of your larger competitors aren't able to launch a similar product is, maybe they are worried about cannibalization of their [inaudible] business? Are you actually seeing some of your customer base cut the cord and what kind of of percent?

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

Yeah, we have about 52% of our customers have cut the cord.

Richard Prentiss - *Raymond James - Analyst*

Wow.

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

About ten times the industry average. We seemed strong -- now that is about three-four months old. And we have seen continuous trend upward on that year-over-year.

So part of that may be cannibalization of their existing business as well. But we have nice land line displacement characteristics. On family plans, we have had family plans for a number of times -- have not seen tremendous uptake on that. We really see people, once they get into simple and predictable, really want to absorb the product and use it as we offer our product, where they can have that number and use it as they care to.

What we have been focused on is, for some of the customers in our demographic, they want to more regulate their usage and so the area that we are more focused on attacking right now is into the pre-paid space and so we are looking forward to getting jump in the right distribution now, and going ahead and letting that go to work on our demographic, with the unlimited incoming value that we bring there. We think moving that brand promise into the pre-paid space over the next several quarters will bring us some good results.

Richard Prentiss - *Raymond James - Analyst*

And obviously you talked about somehow trying out, if not with an outright merger, which, obviously is something you won't talk about, but maybe from an operational standpoint [inaudible].

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

I certainly that right now we have an opportunity to generate a lot of growth doing what we are doing. We have got -- it is pretty exciting. We have got new products to go out and learn and take to market. We have got new markets that are launching and I don't want to generate undue optimism here, but it's nice to have one behind us and to have some results that we are encouraged with.

So we have got a lot of core growth to go. With our announcement today that we have been able to incorporate EBDO and we have another round of new product family coming. So we are optimistic that -- we have lots of growth doing what we do.

With that said, it's a business of scale and we'll continue to look for all reasonable opportunities to generate scale and so we'll keep our eyes out for what is available to us and have no comments, but certainly we'll focus on generating scale.

Richard Prentiss - *Raymond James - Analyst*

Great.

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

Thank you.

Operator

Sir your next question is from the line of Phil Cusik with Bear Stearns.

Phil Cusick - *Bear Stearns & Co., Inc. - Analyst*

Hey guys, how are you?

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

Good Phil, how are you?

Phil Cusick - *Bear Stearns & Co., Inc. - Analyst*

Good, thanks for taking my call. It's nice to see CPGA staying down, but I think the core areas of churn, raising the low-end there, how should we be thinking about the second half? Last year, from 2Q to 3Q, it was up 80 basis points. Could we see something similar this quarter, is there something happening in the third quarter that you are sort of wary of?

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

I think what we said in the script and I want to reinforce is that we don't think we have done anything that changes the seasonal rhythm of our business on churn, so while the new products are focused on a lot of the largest reasons that customers churn, you don't get one quarter, you don't have adoption and get the full benefits of those.

I think the product that stands out on that is an example is, our rollout of text messaging. It took us about 18 months to get text messaging all the way meaningfully driven into our base, and now we sit here about the tenth largest carrier and 5th larger text messenger in the country.

We are doing the right products that will have the right impact. And now, with that same relentless focus on driving them into the base, we'll get the benefits whether that's looking at the MMS product or the Travel Time product or our new rate plans or Cricket Clicks. So I think we are excited because we have now -- the tools are there and now get an opportunity to put them to work.

With that said, we think that some of those tools that we have will address churn and we expect to see our ability to impact that over time.

Phil Cusick - *Bear Stearns & Co., Inc. - Analyst*

Okay. So it sounds like those new products are just still taking a little bit longer than we had expected?

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

Perhaps not longer than we had expected, but to the degree that the market had an anticipation of -- they need several quarters to go in and get their full impact.

Phil Cusick - *Bear Stearns & Co., Inc. - Analyst*

Okay. Another quick one on this license sale. $10 million for 900,000 POPs, can you give us any more detail there and is that the only license that was being written down?

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

There were -- we can't release any specifics, but recognizing that under FAS 142 we took an impairment charge on it. We wanted to give what prescription we felt comfortable on. It does involve a couple of licenses and we believe that as that transaction has a chance to become definitive, that we would be in a position to announce it.

Now with that said, the company has and expects to continue to look for opportunities to monetize excess spectrum and to the degree we see those opportunities, we'll look at them and make a determination of whether or not we want to proceed.

Phil Cusick - *Bear Stearns & Co., Inc. - Analyst*

So the write-down was specifically only on the carrying value of the licenses being sold?

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

Only on those two particular licenses.

Phil Cusick - *Bear Stearns & Co., Inc. - Analyst*

Okay.

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

And we don't believe, you know -- the company may, from time to time have other impairments under FAS 132, but we don't believe it's indicative of a 142 issue -- broadly across the issues is the licenses that we hold as excess spectrum.

I do want to point out to you that during the quarter we also sold 23 other wireless licenses at or above their book value and there was no impairment recognized for those. So we kind of have to keep this this in perspective. Out of 25 licenses that we had activity on during the quarter, we had gains or -- we were at or had gains -- on 23 relative to book and two that were under book.

Phil Cusick - *Bear Stearns & Co., Inc. - Analyst*

Got it. Thank you, guys.

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

Thank you, Phil.

Operator

Sir our next question from the Romeo Reyes with Jeffries.

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

Hey, Romeo. How are you?

Romeo Reyes - *Jefferies and Company, Inc - Analyst*

Hi guys. Good quarter. A few questions I have for you here. Particularly on the $45 plan, the unlimited plan. I am trying to figure out what percentage of our base and what percentage of your gross ads are taking up $45 plan? Seems like a significant portion of your gross ads are taking that plan as we are seeing a nice lift on the ARPU.

Second question, also relates to ARPU, as you look at some of the new products -- it is probably a little too early, but do you have any sort of numbers that you could give us on what sort of lift you are seeing on the ARPU from that?

Thirdly, related to the EBDO Cap Ex upgrade, can you isolate how much of that four-seventy-five is going to go into EBDO and how many of the 14 to17 million POPs you assume in that number?

And just lastly, the [inaudible] is going up very nicely here, I guess despite the fact that you are going to have Op Ex related to Fresno. Is the [inaudible] number still around 5 to $8 million for I guess Fresno second half of the year? Thanks.

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

We haven't released specific percentages on our $45.00 rate plan, but it's significant.

We are seeing well over half or more of our gross ads coming on the higher rate plans we see.

We have been pretty pleased with the acceptance we have seen on that rate plan, and the acceptance of having not only all of the unlimited LD and local minutes, but the addition in there of the MMS, all of the messaging services has really, I think, gotten our customers' attention.

The new product lift on ARPU -- one of the things that -- we believe there may be some new product risk as Travel Time and Cricket Clicks and these other things get a chance to work. That one however, as you listened to us, the lift on that has got a more CCU pressure that comes with that.

So those don't have necessarily the same operating leverage as our core rate plans do. So while we may see upward pressure on ARPU, we think you will see, maybe not dollar for dollar.

In fact, we don't expect dollar for dollar but you will see also, leverage upward on CCU with those, with their intent being that we want to sell more of our core rate plans. So we have not given a lot of guidance yet on how we think those will affect ARPU, but believe they will be closely linked and also some relative impact up on CCU.

As far as the break-out, we are not in a position right now to give you specific details between what is in core market builds and what is in the EBDO. We may at a later date be in the position to give you a little bit more break down on that, but not in a position to do that.

The last piece the company is standing by that the Op Ex for Fresno will be $8 million or less. So that is approximately, we said $8 a covered POP and we are launching about a million covered POPs in Fresno, so I'm just finishing out the math on that. Most of that impact would be expected to occur in second half of 2005. So we are working to achieve that 8 million or less impact as we get Fresno going.

Romeo Reyes - *Jefferies and Company, Inc - Analyst*

Thank you.

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

Thank you, Romeo.

Operator

And sir, our next question is from the line of Tim [Lesh] with Third Point Management.

Tim Lesh - *Third Point Management - Analyst*

Congratulations on a strong quarter.

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

Thank you, Tim.

Tim Lesh - *Third Point Management - Analyst*

With respect to EBDO, is that EBDO Rev A right off of bat or are you going to use the interim version? And secondly, when would you expect to actually launch packages, I guess maybe perhaps initially either in the existing markets or maybe in the greenfield new markets -- what is kind of the timetable for that? And do you expect there to be -- when do you expect handsets to actually support your sort of CPGA to be available for that?

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

Tim, let me have Glenn start to help with that question.

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

Okay relative to the question on Rev A, Tim, initially -- as you probably know -- Rev O is what is out there currently. They are telling us that Rev A would be generally available roughly in the last part of '06, maybe first part of '07 timeframe. So, what we are planning to do is to go with the Rev O that is currently available and then subsequently upgrade to Rev A.

And, so that is part of the plan. As you know, that is really the evolutionary road map for CDMA. And so, we believe that the products and services that DO will allow us do, including things like perhaps music downloads, advanced gaming or location-based services will be well-received and bought by our customer segment.

Tim Lesh - *Third Point Management - Analyst*

Any update on handsets?

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

Handsets --, as you know, the handsets are currently playing on Rev O. We will have to be looking very closely -- specifically the applications that make the most sense for our segments. And, we are working with our vendors today to assure that we have the right handsets and at the right price, I might add, for our customers.

Tim Lesh - *Third Point Management - Analyst*

It sounds with the launch of Rev O, you would initiate services in --- EBDO services contemplated in the first half of '06?

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

We haven't given launch dates on it, but what I would expect to see follow is the content support relationships will follow in the coming months and as we get those in place, TIm, we will go ahead and start to provide launch dates for when we will go live.

Tim Lesh - *Third Point Management - Analyst*

Sorry, one last question. I think there is a little bit of interest in your expectations for third quarter, '05, vis-a-vis third quarter '04. And, what procedures or what are you doing this year to kind of get a heads up or get some visibility on some of the issues that impacted third quarter last year? Can you kind of talk about how you are handling this year in relation to what you experienced last year?

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

Well, there is a few differences.The first is we are not trying to emerge, and so we have an opportunity to focus more on operating on the business than getting the company emerged in some of the complex issues of actually reconstituting a company.

The second piece is we have made a lot of inroads on our product portfolio, so some of the things that we outlined in the product portfolio are in place and working. The third piece is that we are operating under Company guidance at this point and so some of the issues that we had is you getting people comfortable with the rhythm that our business has and moving that through.

Then we have got some new things that get to go to work for us. We are working on our distribution, as Al has talked to you about. We are talking on letting that brand message start to work itself into the markets.

So you know, clearly third quarter will be, as we talked about, absorbing the primary implementation costs related to 404 and the Fresno market launch, but we also have a lot more tools to work on and the ability to drive the business ahead.

Tim Lesh - *Third Point Management - Analyst*

That is great. Congratulations.

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

Thank you.

Operator

And sir, our next question from the line of Jonathan Atkin with RBC Capital Markets.

Jonathan Atkin - *RBC Capital Markets - Analyst*

Hi, how are you today?

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

Hi, good afternoon.

Jonathan Atkin - *RBC Capital Markets - Analyst*

The markets you plan to launch by year end, '06 -- does that represent all the licenses you acquired in Auction 58?

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

It may not represent all of the licenses. So the 14 to 17 million covered POPs has two pieces in it. First is to what final coverages that we launch, and the second is whether the markets get completed in '06 or there might be some of the later markets that may not launch in that time period.

So, what we would expect it is -- is we get into the year and we get a chance to let these markets get a chance to move along on their launch schedules. We would update that.

One of the things that I believe is important, and I have committed to the organization, is that we are going to focus on launching efficiently and are not going to create time pressures that may cause us to sub-optimize launching efficiently and staying focused on the costs associated with these market launches.

So I think at this point,, it's appropriate to maybe hold off and make sure that if there is a need for a market to move out of '06 that it's still contained within our guidance.

Jonathan Atkin - *RBC Capital Markets - Analyst*

Okay, and the a couple of quick questions related to future spectrum auctions -- are there any future auctions that you think you would be interested in participating in, whether it AWS or H-Block or what else?

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

Yes, at this time we have not made a decision on participating in any other spectrum auctions and we will update you as we get closer to those options if we are going to participate.

Jonathan Atkin - *RBC Capital Markets - Analyst*

Okay. And then curious, about the churn number and the variance that you see across your markets. Is there significant variance or is it fairly uniform?

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

No, we actually have variance -- some variance in our relative performance across our markets, and that helps drive what programs and what products we have been focused on.

An example of that is one of the reasons that we were focused on Fresno and getting that in place was that is a much more attractive product for our customers in that area, and we think that will have a favorable impact, not only on our penetration and our ability to be attractive in that marketplace, but also our long-term customer value.

Jonathan Atkin - *RBC Capital Markets - Analyst*

Okay. And then finally, what kind of a handset -- quarterly handset replacement rate are you seeing?

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

Is this existing customers buying new -- replacement handsets?

Jonathan Atkin - *RBC Capital Markets - Analyst*

Exactly.

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

I don't have that exact number. What I do know is that we have facilitated that to be -- it's inside our CCU and in our Q. I'm sorry I don't have it directly, but we have made that a fairly efficient process. And it does not have a large number -- let us see.

I'm sorry. Actually, it's going to get released in our Q and the number for the third quarter -- or for the second quarter, I am sorry -- will be about $3.5 million in costs related to second subsidy.

Jonathan Atkin - *RBC Capital Markets - Analyst*

Okay. Okay, well thank you very much.

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

Thank you.

Operator

Sir our next question is from the line of Ethan Schwartz with CRT Capital Group.

Ethan Schwartz - *CRT Capital Group LLC - Analyst*

Not to beat a dead horse, but I want to go back to this churn number. The churn that you talked about, these customers who are seeking new products, do you find that concentrated in any particular age group or any particular income group?

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

Well, I would say it this way, different customers churn for different reasons. So that is why you have seen us do a fairly broad array of catch-up products.

I think that text messaging may not have universal -- may have some sensitivity on age, as an example, on who is likely to uptake on that, as would MMS, the picture messaging, or Cricket Clicks services.

So, there are some -- the product portfolio in whole that we have been trying to address should have, we expect, over the next several quarters, to have a positive impact over a broad array of customers. So yes, there is some variances, but we don't have it or are not in a position to discuss details on what products affect what demographic.

Ethan Schwartz - *CRT Capital Group LLC - Analyst*

I guess, let me try to get at this another way.

Let me play devil's advocate. Is there any chance that it's not specific product that people want, but simply that there is a lifecycle for your product? In other words, somebody who, for whatever reason, is too migrant to take a regular phone, takes one of yours and then when they get a residence, they go to a regular wireless carrier? Or a college student takes one of your phones then come June, when they graduate, they take -- go to a regular wireless carrier? How much hard market data do you have that shows that there are really very specific products that you lack that could allow you to take your churn down once you get them?

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

Let's hit that two or three different ways and the first is, I think there is always the chance. So I will acknowledge your question at face value. I don't think that is what we are focused on.

The first is remember we deal with a different set of customers and we deal with it on a unique product. And if you look at the CCPU, so the number that incorporates the contribution with all of the elements, you know, we are on a par, or better than the industry, two-thirds the ARPU. And that is an absolute number.

So I think that's framed -- customer life -- it frames CPGA, our ability to acquire service, provide the minutes and all, and it's a pretty substantial economic strength where we're at. And we see evidence that we'll be able to attract additional customers. I am not sure that the company has plans at this time or actions that we think have evidence that will drive our churn down to 2%.

We think that this customer basis that we serve is likely to have a little higher churn characteristic than a contract-based set of customers. So we are optimistic that we have got our customer economics right.

We are optimistic that we have got new products and services that will allow us to manage that and stay competitive, not only to make some impact on how we retain our existing customers, but also to accelerate our ability to attract new customers, and we're looking forward to trying to build that business both in our new markets and in our existing markets, and drive out this 40% margin we are running.

Ethan Schwartz - *CRT Capital Group LLC - Analyst*

All right. Good luck. Thanks a lot.

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

Thank you.

Operator

And sir, our next question is from the line of Vince Walden with Thornberg.

Vince Walden - *Thornberg - Analyst*

Hi good afternoon and thanks for taking my call. Two questions on the net sub adds for the year.

One, could you clarify if there are any other new market launches scheduled between now and year-end?

And two, about how much of the net adds are coming from new markets as opposed to markets that have been operational since January 1st? Thanks.

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

The first is we have not given any other announcements right now on other new markets, and so should it be possible to look at another new market, we'll update you, but have no announcements at this time on that.

The second piece is while Fresno is interesting, and will play a role, it's not a substantial role in our guidance and we'll look forward to getting most our effect on customers for the year out of the markets that we had in place at the beginning of the year. We are trying to get more success or trying to get more markets launched, but again we'll update you as we get a little bit closer on that.

Vince Walden - *Thornberg - Analyst*

Great. Thank you.

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

Thank you.

Operator

And sir we have a question from the line of Evan [Mowell] with Criterion.

Even Mowell - *Criterion - Analyst*

Hi guys. Couple of questions. First, what amount of ARPU would you guys characterize as coming from data at this point?

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

We do not have a substantial contribution from our Cricket Clicks product at this point. Where we do have a fair amount of contribution, but we are not in a position where we break that out, is from our messaging services to the degree people look at those as data revenues.

And as an example that is one of reasons that we see the good demand on our new $45 rate plan, but we don't break out ,in that case, the specific component of a rate plan that is associated with one service or another.

What is interesting is that Al outlined is we're going to have our first Brew hand set in a good category, our most popular category with the launch of the Dorado in the fourth quarter and so that should give us a chance to start to see more traction over several quarters of the data, the brew-based or other services that we might launch over that handset.

Even Mowell - *Criterion - Analyst*

And then turning to the new markets for a second. I know you have given some guidance around what you think the Op Ex investment per covered POP would be, but can you give us any sense of what the G&A costs and what the network costs are expected to be when you launch these markets?

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

We haven't given specific guidance on that at all at this point. I think as a general rule of thumb, you are going to find a lot more impact on the Net Ops line than you will on the G&A line, but we really haven't provided any specifics on it.

And I think Glenn mentioned and I will reinforce, as these become a more substantial portion of our business, we'll start to provide what guidance that we can under GAAP principals. We will try and provide what information we can under that.

Even Mowell - *Criterion - Analyst*

Okay, and my last question on that is, how should we think about sort of ultimate penetration opportunity in the new markets versus your existing market? Is the competitive situation significantly different because you are entering these markets so much later, and therefore should we expect that your new markets should not be able to achieve the same kinds of penetration you have achieved so far in your existing markets, or is that an incorrect way of thinking about it?

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

Well, we have not given specific data on ultimate penetration, but I have made a couple of comments that I think are relevant. The first is, we do believe that there is additional penetration available in our existing markets. We do believe we'll see those results over time, and we are going to keep working at those we've seen. I'm proud of the top line growth that we committed to do at the beginning of the year.

The amount of that we have achieved in the first half through the rate plans and all of the ARPU enhancements that we have seen with diligent cost management, but we also think later in the year and over the course of the next several quarters we'll see more penetration in those existing markets, The second piece is, the new markets, we picked those based on three criteria --

that they had the right geographic characteristics of our better performing markets, and we have said some of our better performing markets have double-digit penetration, that they have the demographic diversity that we see a lot of our product uptake go along with, and then the third piece is that the markets have appropriate employment characteristics.

So we are looking forward to getting into those markets and letting some of the learnings that we have from our better performing markets that are perhaps higher than our mid-point penetration today, go to work and we are optimistic that we can see penetration, even though they are launching later, that may not match where we are at on all of our markets on our better performing markets, but will provide an attractive return.

Even Mowell - *Criterion - Analyst*

Thank you much.

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

Great. Carlo, are there any more participants in the Q&A queue?

Operator

No sir, not at this time.

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

Thank you for joining our call today. As you can tell we are encouraged by the solid results of the second quarter. On behalf of our employees, the officers and the directors of Leap, we thank you for your interest and continued support.

We look forward to talking to you again at our third quarter conference call in November. If you have any further questions about our results for the second quarter, or need additional clarification, please feel free to contact Jim Seines, Director of Investor Relations, at 858-882-6084.

I hope 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 expansion and profitability that we see before us. Thank you.

Operator

Ladies and gentlemen, we thank you for your participation in today's conference.
