FINAL TRANSCRIPT

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LEAP.OB - Q4 2004 Leap Wireless International Earnings Conference Call

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OVERVIEW

LEAP.OB reported 4Q04 total revenue of approx. $207m. Net loss for 4Q04 was approx. $6.5m. For 1Q05, the Co. expects total consolidated revenue to be between $223-228m. Q&A Focus: CapEx and margins, products, and NOLs.

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PRESENTATION

Operator

Good day, ladies and gentlemen and welcome to the fourth quarter 2004 Leap Wireless International earnings conference call. My name is Megan (ph) and I will be your coordinator for today. At this time, all participants are in listen-only mode. We will be facilitating our question and answer session towards the end of this conference. [Operator Instructions] As a remainder this conference is being recorded for replay purposes. I would now like to turn the presentation over to your host for today's call Mr. Jim Seines, Director of Investor Relations. Sir you may proceed.

Jim Seines - *Leap Wireless International - Director of Investor Relations*

Thank you, Megan. Good afternoon and welcome to Leaps fourth quarter 2004 conference call. This call is being recorded and will be available for playback in the US through May 18 by calling 1888 286 8010, callers from outside the US only to dial 1617 801 688. The pass code for both calls is 392 31892.This conference call is also being webcast live and will be available for replay on the investor relation's section of our website at www.leapwireless.com for the next 30 calendar days.

Joining me on the call today to discuss the results of the fourth quarter are Doug Hutcheson, President and Chief Executive Officer, Albin 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 Megan will come back on line to remind you how to key in for the question and answer portion of the call.

During our call today, we will discuss some financial metrics which do not conform to generally accept to the accounting principles or GAAP, in the US such as Cost per Gross Addition or CPGA, Cash Cost per User or CCU and adjusted EBITDA. Any non-GAAP financial measures presented by the company during today's call should be considered in addition to, but not a substitute for information prepared in accordance with generally accepted accounting principles.

For GAAP reconciliation's of the non-GAAP financial measures discussed today, please access the financial information page of investor relations section of our Leaps website. Today's conference call was preceded by our earnings release for the fourth quarter. This release has been distributed on the news wire and is available on investor relations section of our website. The information contained in today's call should be considered together with the information contained in our earnings press release. We also refer to you to additional information that will be available in our Annual Report on 10-K for the 2004 fiscal year, which we expect to file in the next few days.

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 or performance our forward-looking statements inherently involving numerous risks and uncertainties. For example, projections of future performance and statements including words such as help, expect, plan, intend, believe, think, anticipate, and similar terms of 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 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 most recent quarterly report and Form 10-Q and in our Annual Report on Form 10-K for the fiscal year ended December 31, 2004, which we intend to file within the next few days.

The materials discussed during our conference call today it is not a 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 entity by reference to all information disclosed by Leap and its press releases and the public filings with the Securities and Exchange Commission. With that, I will turn the call over to Doug.

Doug Hutcheson - *Leap Wireless International - President and Chief Executive Officer*

Thank you, Jim. Good afternoon. I want to thank you for joining us today we provide an update to our continuing progress in building the company's business performance and operational excellence. During this discussion we will review the results of the fourth quarter 2004, preliminary information on the first quarter 2005, business outlook for the year, and some insights into our expectations for our lease activities and their anticipated effect on the company. Our performance and future prospects are far ahead of where we thought it would be early 2004.

During the second half of the year the company started investing again in the development of customer driven products and services that are significantly transforming our business. In the past few months we have launched our new group a data service Cricket clicks, expanding international Collings from two countries that over 70 while lowering the cost and calls in Canada and Mexico. In addition, new simplified service plans, pricing in broadband option introducing a new $5 service bundle that provide text, pictures, an instant messaging. We introduced jump by Cricket, an exciting new entry into the prepaid market with a hallmark of our limited value. We began the plan roll add about new travel time roaming service providing our customers with the ability to use the Cricket phones during occasional travel outside the Cricket service area. We finally introduced in marketing and awareness campaign supported by new merchandising and the redesign of our direct store and many dealer locations. Ultimately these initiatives were undertaking a design to increase our customer base as we continue to see progress and attracting new customers and retaining our existing customers.

During the fourth quarter of 2004 with the company grew by approximately 29,000 subscribers, bringing a total for the year to 97,000 net new customers. I return to customer growth was a significant achievement as we emerge from the financial restructuring. The new customer service retention initiatives introduced during the year reduced our annual term to 3.9%, approximately 1.5 percentage point lower than the turn rate for 2003. These positive trends and customer activity continued during the first quarter when we added nearly 46,000 new customers to our service in posted at 3.3% turn rate. In addition to a renewed focus on meeting the needs of our customers, we have actively been building value in other areas of the business.

Let me highlight to. First, successful syndication of $610 million in senior secured credit facilities, increasing our financial flexibility when lowering our interest costs. Second, we completed a thorough review of our spectrum and operating markets to realign our business. Monitories our SS spectrum and acquired new attractive markets for our Cricket service. We will cover these and some additional detail today. I like to discuss an issue of business base in the fourth quarter and principal factors delaying earnings release. The underlying strength of financial performance was masked by higher rebate activity experienced later in the fourth quarter as indicated in the earnings release today. The total financial impact of this increased activity was approximately $5 million, which is reflected as a reduction in equipment and service revenue affecting our R2 and CPJS results.

Despite the loss of revenue from this rebate activity, the company was able to nearly reach adjust EBITDA guidance for 2004.Dean Luvisa now enlarge and will cover the details of this issue and its financial impact on our reported results later this call. Initially in response to the SEC recent clarification on accounting methods for leasing cost, the Company performs an in-depth analysis of our lease accounting and other accounting practices during the preparation of our financial results. This process of review was complicated by the re-negotiation of leases during our restructuring and the application of fresh start accounting in the third quarter. After a detailed accounting review, we discovered other errors had been made. As we stated in our Form 8-K filed earlier this week.

We expect to a remind our third quarter financial statements. The net impact of the corrected errors is an improvement of more than $5 million to net income. We encourage investors to review our Form 8-K, and when filed a revised third quarter Form 10-Q to determine significance of these adjustments. While this review as a resulted in adjustments to our lease accounting among other matters, its not affected our overall guidance for 2005. In fact, later in this call you will see that we have updated our guidance by tightening the ranges of expected performance and including the buildup cost of the new market. While the delays as a result of our 2004 audit have also impacted the timing of our first quarter earnings release, today we are providing preliminary top-level results. We have not completed a comprehensive review of the first quarter, but believe the initial review is adequate to provide some preliminary in sight. We expect total consolidated revenue for the first quarter to be between $223 and $228 million. An improvement of $16 to $21 million over the total revenue of $207 million reported in the fourth quarter. We also expect an improvement in our average revenue per user, which we expect to be between $38.25 and $39.25 for the first quarter.

Lastly, there will be a substantial quarter-over-quarter improvement in operating income which we expect to be between $19 and $24 million, excluding any stock based compensation expenses. An improvement of $13 to $18 million over the fourth quarter. We believe these increases in total revenue in operating income indicate a continuing strength and potential of our business. We look forward to sharing more results with even the coming weeks. When you read today's earnings release and listen to the balance of today's call, I encourage you to consider how much the company has changed in the last few months. This company has executed on a broad array of new initiatives and capitalized on an opportunity to have some very excited prospects for growth in the future.

I expect that this pace of changes likely to continue as we added additional products and services while we were prepared to launch the new markets. I will now like to turn the call over to Dean who will review the financial results for the fourth quarter followed by (indiscernible) who will discuss our product and development marketing plan. Glenn will then review our new market build out plan. After the comments I will follow up before we move on to the question and answer portion of today's call. Dean

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Dean Luvisa - *Leap Wireless International - Chief Financial Officer and Treasurer*

Thank you Doug. As announced in our AK earlier this week and described in this afternoons press release, we will amend quarterly report on Form 10-Q for the period ended September30, 2004 including our fresh start balance sheet which I will discuss in a moment. The effect of this amendment for the month ended July 31, 2004 should increase to the restructuring gain by approximately $5 million to $962 million due to net liabilities that were ended vertically over stated on our previously issued pressed our balance sheet. The effect of this amendment for the two months ended September 30th is an improvement to pretax operating results by approximately $900,000.

Resulting from additional recognize revenue and interest income partly offset by higher lease related expenses. Moving on to our fourth quarter results, total revenue was approximately $207 million, a year-over-year increase of nearly $18 million, approximately 9% over total revenue reported for the fourth quarter last year. This improvement is a result of $13 million year-over-year increase in service revenues from the higher number of total customers in the increase penetration of high end rate points and $4.5 million increase in equipment revenues from higher volume of handset sales and shift in the handset mix to higher-priced models. As that mentioned previously, during the fourth quarter of 2004 the redemption rates for rebates promotions increase.

Historically our handset promotions centered on the use of rebate with inservice requirements for redemption's. Customer utilization of these rebates have been consistent, allowing reliable estimates of redemption rates associated with this customer driven behavior. This quarter sought a 35% increase on the number of customers reviewing rebate on handsets purchases. Interestingly in the first quarter of 2005, we saw the redemption rate for our mailing rebate promotion return to previous levels. Going forward, we intend to reduce the use of mail and rebates focusing more on new Product introduction and ongoing service revenue enhancements to drive customer growth. We anticipate the products and services recently launched when combined with new brands centric marketing campaign will provide an impetus for growth, allow us to use handset and other priced based promotions on amore targeted basis.

When we choose to offer mail in rebates, in the future we will carefully consider the recent volatility of redemption rates. Looking sequentially at revenue from the third to the fourth quarter, our service revenue rose by more than $2 million as a result of the higher number of subscribers. Excluding the effect of the increased rebate redemption's, service revenue would have increase by another $2.5 million. Equipment revenue equipment revenues fell by nearly 3 million quarter-over-quarter, due to primarily by the change in mail and redemption rates in the effective insert rebates around during the holiday period. Excluding the effect of the increase, rebate redemption equipment revenue would have been essentially flat. As indicated in our press release, we expect substantial improvement in first quarter of service revenues and higher equipment revenue. Dropping below the revenue line, follow year-over-year operating expenses for the fourth quarter, excluding depreciation and amortization impairment rose by approximately $13 million or 9%. Sequentially these expenses rose by approximately $6 million or 4% from third quarter to fourth quarter in 2004.

The increase in total operating expenses were primarily due to increases in the cost of handset equipment. Cost of equipment increased by approximately $12 million year-over-year and by 6.8 million quarter-over-quarter due to higher volume of handset sold more expensive handsets sold and an increase in the number of upgrades by existing customers. Cost of service was flat year-over-year despite the increase of 97,000 net new customers as we focus on maintaining a cost leadership position and benefit from savings achieved during bankruptcy. Looking sequentially, cost of service decrease by approximately $5 million quarter-over-quarter primarily due to increases related to customer experience enhancements in the third quarter combined with the reduction of run rate of Property Tax expense in the fourth quarter.

As indicated during our third quarter conference call general administrative expenses increased in the fourth quarter. Moving back to levels comparable with our second quarter. The quarter-over-quarter increase of approximately $5 million was due impart to the implementation of California State overtime regulations for certain employees and hire employee relocation expenses. Depreciation and amortization expense for the fourth quarter declined by approximately $28 million year-over-year. This reduction resulted from a reassessment of the useful life of property and equipment during the third quarter and the increase costs for the amortization of other intangible assets reflect on our balance sheet as a result of fresh start reporting.

Additional information regarding new changes and depreciation and amortization are described little more detail in today's earnings release and will be on our fourth coming Form 10-K and amended Form 10-Q. Net loss for the fourth quarter was approximately $6.5 million after absorbing over $11 million of interest expense related to our now paid off exit know, which was slightly better than the third quarter, excluding restructuring items. And significantly better than last year's fourth quarter excluding restructuring items. Moving at the balance sheet, unrestricted cash equipment's in short term investments were approximately $254million as of December 31. $40 Million increase from the prior quarter even after making deposits to the FCC, totalling nearly $28 million relating our participation in auction for TA. Our solid cash position reflects another quarter of strong positive cash flow from operations of over $42 million after CapEx.

In January we refinanced our 13% senior secured pick notes as a remaining SEC debt with a $500 million senior secured term loan and $110 million un drawn result revolving credit facility. The refinancing yield a net cash process of approximately $60 million after receiving our exit notes, repaying the SEC debt and associated fees and expenses. We expect to see substantial improvement in interest expense as a new debt despite that live work for 250 basis points. In addition we recently announced agreements to sell licenses in several of our small operating markets and our cell towers, which together we expected to have approximately $180 million to our cash position in our season expenses. We expect these transactions to close later this year. With respect to the factors delaying our earnings release, our SEC filings will detail efforts review and correct our lease accounting and are discovering correction of accounting errors in our application of fresh start reporting. As a result we have also concluded that certain material weaknesses existed in the company's internal control over financial reporting as of December 31, 2004.

We performed additional analysis and other remediation procedures so our consolidated financial statements are presented in accordance with the accounting principles generally accepted in the United States. We believe despite these material weaknesses, that the consolidated financial statements will present fairly in all material respects the financial condition results of operation and cash flows for the periods presented. We appreciate our investors' patience and understanding during the last six weeks. We took the appropriate time to ensure that we are accounted correctly for our leases, which underwent considerable change during the course of bankruptcy. We also properly consider all the implications of fresh start reporting and are restated third quarter results. We expected delay in filing our first quarter results, but intend to complete our filings as rapidly as possible, adding staffing and resources to our financial accounting and reporting organization to focus on accurate and timely financial reporting in the future. I would ill now like to turn the call over to Al.

Albin Moschner *- Leap Wireless International - Exec. Vice President and Chief Marketing Officer*

Thanks Dean, and good afternoon to all of you who have joined us today. During 2004,we began the process of creating the platform for our next phase of growth. The areas addressed all facets of our operations, from evolving our products and services to better meet the current and future needs of our customers, to marketing our service and caring for our customers throughout their tenure. We believe the strength of our business is readily apparent in the top line growth numbers reported today.

Gross customer additions for the fourth quarter were approximately 220,000, representing an increase of 21% over our gross additions during the same period in 2003 and an increase of 10% from the previous quarter. For the full year of 2004 total gross additions were approximately 810,000, an increase of 10% over gross additions during 2003.

Quarterly Churn, likewise improved dropping nearly two-tenths of a percent year-over-year to 4.1% and bringing total Churn for the year to 3.9%, an improvement of nearly 0.5% over what we reported for 2003. Going forward, an important element of our retention program will be improving customer service. Our drive to create a more customer Center culture is succeeding and will continue. By realigning employee responsibilities and performance measures, our customers' satisfaction metrics are improving in our stores and in our call centers. We set aggressive goals in 2005 to drive addition improvement in overall customer satisfaction, and we are pleased with the progress we're making.

As stated during our last conference call, the primary reasons for customer deactivations include-- an inability to pay, the need or desire to replace our handsets, and current product features and capabilities. During the last several quarters, customers' inability to pay has declined as a reason for deactivation, as we have provided more flexible payment options for Cricket (ph) customers. We expect the downward trend in this category of Churn to continue as additional payment methods and locations are provided.

Customer deactivations related to handset issues continue, as new handsets are rolled out and competitive handsets based offers are developed. We have implemented tenure based handset upgrade offers, which have provided improvement to our customer throughout our churn performance. We continue to work to identify additional programs to enhance customer retention and satisfaction. The third reason for customer deactivation is the customer's desire for additional features and functions in our core products.

During the last several quarters that desire has increased as a reason to deactivate as the industry continues to introduce new service capabilities. As you can see from our recent announcements, we are making good progress as we work to enhance Cricket's product and service offerings to better identify and meet the needs of our customers. Going forward, we anticipate further churn improvement to rest primarily on the success and timing of new product introduction, such as travel time, which we expect to finish launching later in the second quarter or early in the third.

Our improvements in gross customer additions and customer retention during 2004 were approximately 97,000 new net customers to our Cricket service. This returns to net customer growth in 2004 marked an important achievement during a year that we saw our emergence from financial restructuring and serves to highlight the potential of our company, as we execute and product development plans and customer service initiatives. Although customer activity in the first quarter has followed the expected seasonal trend, we do not expect to see the impact of our products development activities in our subscriber numbers until sometime later this year, as all of our new services will become available and are accepted by the marketplace by then.

Looking at our operational metrics for the fourth quarter, ARPU was $37 29, an improvement of $0.32 from the $36.97 level for the prior quarter. This result occurred despite the impact from increased rebate activity and reflecting improvements in customer retention, and an increasing penetration of higher price rate plans within our customer base. Excluding the impact of this increased rebate activity during the fourth quarter, ARPU would have been approximately $0.52 higher. The higher than expected rebate activity also had an effect on our cost per gross addition or CPGA, which came in at $159, an increase of $18 over the

CPGA reported in the prior quarter. Approximately $12 of the increase is attributed to the rebate activity in the fourth quarter with the remainder attributed to our use of instant rebates during the holiday period, which concentrate most of their total cost of equipment revenue in the period that the handset was sold. In the first quarter, this metric has returned to levels consistent with those experienced in the middle of last year. We believe the marketing programs we have put in place will allow us to deliver gross additions below the $150 level.

Looking beyond our operating metrics for the quarter, penetration of wireless services In the United States stood at 62% of the total population at the end of 2004. Long term, industry and financial analysts project this could grow to approximately 80%. We firmly believe the value conscious segments we target with our Cricket service are at the heart of this opportunity that lies between these two numbers. As we move into 2005, we expect to take advantage of this opportunity by aggressively moving ahead with the additional development of new customer driven products and services while building on our Cricket brand, expanding our distribution presence, and continuing to develop programs aimed at improving our customer service. Our strategy includes the use of new product features and functional improvements to drive profitable growth and retention of subscriptions to our core service plans with a positive effect on ARPU. We expect ARPU growth to come from three sources. Improved Service mix, 2) higher price plans, increased penetration of feature add-ons and the future introduction of new capabilities, or away from home calling option travel time for example. This is where we stand on our market impart initiatives. We completed the network roller of Cricket Clicks, our BREW-based data service. As this service expanded across our markets, we have seen revenue from Cricket Clicks pour rapidly in its initial months of deployment. Our installed base of BREW enabled handsets on a precise basis is still low, we have launched two new BREW capable handsets in the first quarter and we expect to launch more in the future.

While it is still too early to discuss the impact of Cricket Clicks, we are beginning to see which should be a meaningful contribution to ARPU. We have expanded our international long distance calling options from Mexico and Canada to over 70 additional countries. We replace the rate to Mexico and Canada to $0.10 per minute and offer ILD calling to the remaining countries in four teared groups. $0.10, $0.20, $0.30, and $0.60 per minute depending on the country. This expansion is intended to support the calling pattern of our existing base and provided appealing option for new customers.

In March, we introduced our prepaid service jump by Cricket. This new service targets customers who prefer a wireless service not tied to a monthly billing cycle. It combines the best of a prepaid industry with the best of Cricket by offering outbound calling at a flat $0.10 per minute rate and unlimited inbound calling, giving consumers the most compelling value in the prepaid wireless today. While it is still early, initial customer interest in this product has been positive. In the next several quarters we expect to significantly increase the number of distribution points for Jump. To further our commitment to simplicity, predictability, and value, Cricket has revised service offerings to include three new unlimited plans, unlimited access, unlimited plus, and unlimited classic ranging from $35 to $45 per plan.

As we mentioned before, an important driver of ARPU growth is the increased penetration of feature add-ons. For additional $5 to $15, a customer can supplement their service with international long distance, Travel Time, Cricket Clicks, unlimited MMS, text messaging to Mexico, and AOL instant messaging and other calling options. We made significant progress in providing travel time to cricket customers list the first stage of our market roll out. In November last year we brought on board a new advertising agency Element79 to work with us in a development of strategic and integrated marketing campaigns designed to support and reenergize the Cricket brand in the marketplace.

Our new campaign both literally and figuratively puts a new face on the Cricket brand. Building on our customer centric focus, our new spokes person is our own Cricket customers. To showcase real Cricket customers in our advertising, we held casting calls across the nation where hundreds turned out to tell us how they use Cricket service. We will hold future casting calls in other markets to generate similar excitement around the products and the brand. Our markets differ significantly in individual demographic and psychographic make up. Our challenge was to customize our marketing programs and messages to fit each individual market. Our new advertising campaign contains all new radio spots that will arm our field staff with a variety of messages to support this customization while optimizing our marketing and advertising spending levels.

We will have also retired the cricket couch. As our payment in distribution locations provide more ubiquitous coverage, there was a need to readily a bona fide Cricket location with a new icon. Which shows the K in Cricket as a way to take advantage of the significant brand Equity already in the Cricket name, while providing anew and simple way to identify ourselves. With the re-launch of the Cricket brand, we also took the opportunity to improve the design of our store, company owned stores, introduced a new three steps sales process. The benefit to the customer is a thorough introduction of our new service plans, our quality network, and product features to improve their in store experience.

During the restructuring period, we significantly rationalize our indirect points of distribution and reduce their numbers, eliminating passive, low touch locations. We are in the process of selectively expanding our indirective distribution channel under a new premier dealer program developing new indirect sales locations, which more closely resemble the new look and feel of our company owned stores. This increase distribution presence will be an important part of our effort to support future growth. As you can see, we have clearly reenergized our product development, marketing, and customer service activities over the past two quarters and we have a robust pipeline of new products and handset launches plan throughout the remainder of 2005. I will now like to turn the call over to Glenn who will provide you with an outline of how we intend to implement the expansion of our business into new markets.

Glenn Umetsu - *Leap Wireless International - Exec. Vice President and Chief Technical Officer*

Thank you. Before I talk to you about how we plan to integrate expansion in new market areas into our overall growth strategy, I want to take a moment to discuss where we stand with our operating costs today. For the fourth quarter, our cash costs per user were CCU was $18.74 vs. $19.95 for the fourth quarter of 2003. This 6.2% reduction was primarily the result of significant improvements in Network Operations and call center costs. We achieve this result while absorbing non-cash expense resolving from lease accounting changes. On a sequential basis, CCU increased by $0.35 from the third quarter of 2004. Going forward, we will continue to aggressively pursue cost improvement initiatives across the business and anticipate future improvements in CCU, will be achieved primarily through increasing scale.

As we continue to roll out new products and services over the coming quarters, you will see additional cost from this activity flow into CCU primarily in cost to service. These cost will result from increased penetration of BREW applications, additional long distance calls from our new International long distance offerings, and additional costs associated with the Multimedia Messaging Service and new roaming product. While these new services would drive additional cash costs per user, they will also drive additional revenue that should more than offset these costs and maintain a positive margin. Turning to capital, we finished 2004 with total capital expenditures of $77 million, in line with our expectations for2004 of $80 million. The 2004 capital expenditures were comprised of approximately $43 million for new coverage and subscriber growth and approximately $7 million to cover administrative capital costs. The remaining $27 million includes expenditures to support our new product development drive while enabling our networks for BREW, MMS, roaming and expanded capacity to support higher text messaging volumes.

Looking ahead, the company has taken a number of steps towards our Fresno license build out including vendor selection, preliminary site location, and zoning reviews. We remain on track with our low-cost estimates to build out the market, upgrade the adjacent markets, and replace certain equipment as a result of our final vendor selection. Fresno was a great example of our first stream strategy, which we believe creates some more valuable footprint for our existing customers and Merced, Modesto Visalia and potential new customers in Fresno while also creating greater economies to scale across these markets. We continue to expect launch of the Fresno market in the second half of 2005 subject to FCC approval.

Before turning to 2005 capital expenditures, I would like to review a few of the recent developments with in our business. We will see significant changes in a spectrum portfolio as a result of the recently announced agreement to sell assets and our winning bids on new licenses in auction 58. Our recent asset management activities have three major components. First, the most significant asset sale agreement is for approximately $102 million. The sale represents close to 40% of our license is not in commercial operation and our operating markets in Michigan.

Second, we announced a penny sale of our tower assets, allowing us to focus our efforts on our core operations while increase in our cash position by approximately $18million. Third, in advance of auction 58 the company identified key factors associated with our top performing markets. This analysis indicates an expansion based on the development of regional clusters is the right strategy for our business. We believe the outcome of auction 58 was a significant win when coupled with the asset sales mentioned previously. While we have not finalized any specific plans beyond Fresno, it appears that most of the markets in which Leap for A and B1 was a winning bidder in auction 58 should launch by the end of 2006, assuming timely action by the FCC on the transfer of these licenses.

Generally we expect these new markets to cover an average of 67% to 80% of the licensed pops by the end of 2006. Currently, we expect total capital expenditures to be approximately $28 for recovered path. For the markets we build out and we are working to reach the agreements with certain equipment vendors. We expect a total additional cash requirements for these new markets, which cover funny note, operating losses and working capital requirements to be approximately $5 for covered pop. While our 2005 outlook for expenditures on current markets including Fresno remains unchanged, we revised our total capital expenditures including a range of anticipated spending on the auction 58 markets to an expected range of $175 million to $230 million. Now back to Doug for his closing remarks.

Doug Hutcheson - *Leap Wireless International - President and Chief Executive Officer*

Thanks Glenn. I would like to close the formal portion of the call with the discussion regarding the anticipated direction of the company. But since assuming the role of CEO my activities have focused on the performance of the business, completing our earnings release, the employees and management team, and planning our new marketing expansion so the consistent with the long-term direction of our business. I appreciate the team's efforts to focus on the business performance and the completion of this earnings process with the filing of our Form 10-K shortly. This company has great assets and its employees and management. I feel fortunate to work with such an accomplished group.

I have witnessed the dedication a fully realizing the potential of this company. Together, we will continue to take a product driven approach to growth, continuing making effective improvements to our customer experience, and reinvigorating the Cricket brand in the marketplace. While moving this season making closely to our customers to improve our results. However, the most important focus of the future of our business is committed to cost leadership and all the activities we undertake, making that's the company's core competitive advantage.

As programs, come online to support these goals, we will continue to drive further improvements to our financial performance to our financial performance in existing market. Previously, I outlined the expected first quarter revenues and operating income for the business. The company implemented series of cost reduction activities during 2004, improving our break-even on variable customer acquisition costs to within 60 days. These cost reductions established a cost basis that today allows us to $0.70 of each incremental dollar of revenue from corebles (ph) services that flow through EBITDA. This flow of revenue to the bottom line is a primary driver of the anticipated increase in our operating income for the first quarter.

By continuing the focus on our top line revenues we will generate further adjusted EBITDA growth in our core market, while our business will continue to vary seasonally and the role out of the new initiatives will take time to share that full effect. We are off to a good start in 2005. It is efficient conversion of revenue into (indiscernible) that provides the basis for the business to look at further horizontal growth. Developments over the past quarters make it clear our potential for expansion beyond our existing market is quite exciting.

We expect the next couple of years to bring additional growth as we develop markets well suited for our customer proposition and the market cluster predict with outline. The financial effect of the comprehensive activity discussed today is incorporated in our revised 2005 guidance included in the press release. I want to highlight two areas EBITDA and CapEx. We tightened our full year adjusted EBITDA guidance to date by bringing up the bottom of our range to 245 million while incorporating the cost associated with our new market building activities. We believe the strength of our first quarter performance and the completion of our initial auction 58 planning allows us to incorporate the early bill that activity of additional markets without significant impact to 2005 adjusted EBITDA performance. We provide a full year CapEx guidance of 175 to 230 including the buildup cost expected during 2005. And in building out our markets we expect the cost to be approximately $28 per pop and incremental spending of roughly $5 per pop in packing consolidated EBITDA in the 2005, 2006, 2007 time frame. The company continues to grow our existing markets and we expect cost affecting incorporate the new markets we purchased a shot by our revised guidance this year build activities in generally with in our existing cash flow capabilities and will launched to lead the further scale advantages for the entire business. The company will consider, as always, appropriate Capital Markets Opportunity maintaining a balance between our liquidity and a reasonable capital structure. We have been active on quite a number of other fronts further improving our governance and developing our position in the equity market.

As a part of this effort, we recently announced in addition of two new directors to our board, the first is John Harkey, CEO and co-founder of the consolidated restaurant operation. Mr Harkey, brings a solid background in general Management, mergers and acquisitions, and marketing knowledge, and relevant to our customers. The second is Robert LaPenta, who is recently retired from his position as President and Chief Financial Officer all three communication and brings a strong financial and telecommunications background to the company. Both John and Robert have agreed to join the audit committee and we are pleased to have both of them on board. Many of you asked about our progress in filling the CFO role. Dean Luvisa continues to do an outstanding job leading the company's financial efforts, particularly given the complexity of this quarter financial reporting. I want to thank him for his hard work over the past week. We continue to review internal and external candidates and will provide further information when a selection is made.

The company has undergone a significant and positive transformation over the past year. I believe the company has exciting story to tell and we can now share. We expect to participate in several upcoming investor events including the Laymen (ph) Conference on June 2 in New York. Additional events are under consideration as we plan to meet with analysts and investors on the road and at our offices in the coming months. During our last conference call, the company discussed the intention to pursue a listing our international stock exchange. We have actively continued its pursuit, taking necessary steps to facilitate this process. But we are in a position to provide details about based on our progress toward his goal. We expect to complete these processes in an efficient manner sometime after our first quarter filing.

Our earnings release today demonstrates the continued improvement in our business performance, and the company will surely complete what has been a difficult earnings period when we filed Form 10 K. We believed that we are positioned at the heart of the future growth in the industry and look forward to moving ahead. As we continue to increase our competitive position and the dynamic industry, the effort to build the right service and products offerings will continue packaged to provide high value to our customers and delivered from an industry leading cause position. We believe we will succeed. I will now turn the call back to Jim for the question and answer portion of our discussion. Jim.

Jim Seines - *Leap Wireless International - Director of Investor Relations*

Thank you, would you please go back and remind to review these instructions and open the Q&A portion of today's call.

QUESTIONS AND ANSWERS

Operator

Thank you sir. [Operator Instructions] and your first question comes from the line of Romeo Reyes with Jefferies.

Romeo Reyes - *Jefferies - Analyst*

It is a series of questions. I apologize. First can you give us a sense of how much of the CapEx is from Fresno this year and how much is with the auction 58market and the CapEx guidance? And then secondly also how much of your new market are you going to be using. How much cash you using for new market development in 2005? The $5 is per pop, that you used an aggregate number I take it over the next three years. Of the new markets, how long will it take you to build out those new pops 50 million or so Pops that you're going to be building out? Lastly, on the data contribution, where are you today and what are you see that going things?

Jim Seines - *Leap Wireless International - Director of Investor Relations*

Let's see if we can get all those. First if you break first half. Thank you Romeo. And if you break first part of your question, which is CapEx, we previously announced numbers prior to incorporating auction 58 were between $110 million to $120 million. That included $20 to $25 million for Fresno. And we continue to see no major issues with achieving the $20 to $25 range for Fresno. I think you can take the 110 to 120 updated guidance. The range is far as it is because of timing. We're not sure exactly when all the invoices, such we progress through this slow when you come to a calendar year cut off but for this year we anticipate somewhere between $65 and $110 million. As far as cash for the new market launches, we didn't release that specifically in this year's number. The $5 number was cumulative. You will have less in this year and 2007. The pope will be in the 2005, excuse me 2006 range. Most of the markets we anticipate launching, if not I can guarantee all of them launch before the end of 2006. We anticipate them launching through the course of 2006. As we get a little bit closer and see the SEC actually transfer the licenses to us so we can see what type of risk we have on that it will be in a position to provide more updates. The last piece the data our 2 contributions, as now said, we really have just brought a couple of handsets to market right now. So the BREW part of that data, the ARPU contribution is pretty thin at this point. I think its fair enough that we are not in a position to give out a specific number. The company however, if you look at our new bundles, you will see this quite a bit of internets and other data types services that we include in our value bundles, and that's allows us to see nice up take at the higher ARPU levels as we roll out these new service plants. It works well in our bundling, and that is where we see most of the effects that we're seeing out of the data is really driving in nice up take on the rate plants.

Romeo Reyes - *Jefferies - Analyst*

Okay, so the bulk of the CapEx is going to be spent in 2006 market, during the first couple of quarters of 2006?

Jim Seines - *Leap Wireless International - Director of Investor Relations*

I think follow up in the capital will be in 2006. I am sure as we finish driving the markets to free cash flow break-even, there will be a little bit that comes and falls on 2007.

Romeo Reyes - *Jefferies - Analyst*

Okay, and then a big picture question on Doug and Glenn. In terms of incremental penetration, it seems like the guidance looks at around 67 basis points at incremental penetration. As you look out for your existing market, the core lease market over the next three to five years where you think that penetration can go? And I mean most (indiscernible) stock will say that the penetration has been flap in two years but they wouldn't give predict that your basic have been in financial restructuring for two year taken in the business? Can you give us a sense that now you seem like you on track to sort of adding incremental penetration. Can you give us sense of where you think this business can go? Is 10% maybe 11%? Where can it go?

Doug Hutcheson - *Leap Wireless International - President and Chief Executive Officer*

Well two different pieces to it. The first in the formal part of the call we went through the highlights, the number of product changes we have made. As we go back as we emerged, one of the areas that the company talked about was the need to update and refresh it's the product. I am the execution of the team and pulling those products together and getting them out on the marketplace has been outstanding. We think it is going to take a little while for the market to except those products. As you return and you see growth, it is something that does not happen as an event. You will see the growth start to ratchet up over time. We have markets that are in double-digit percentages on penetration. And we expect when we do analysis on that that we have other markets or existing markets that have certainly potential to go up from here. The reason that we focus sort of hard on product is that along with improving our customer centric focus and again driving those into the marketplace. We think there is upside growth, and that is why we are focused on trying to drive that top line revenue growth through selling more plants. So, when we are investing what we are it is because we have seen it in some of our markets that we believe there is upside potential and our core markets. And we want to go after it.

Romeo Reyes - *Jefferies - Analyst*

One last question. With respect to the new auction 58 market if I remember correctly with the market's year-end right now are on average you broke even in about 15 months or so from start to I meant to get into EBITDA break-even. Given that obviously you have more experience now in running this business and running with this model, going after the customers and going after do you think that you can compress that window a little bit?

Dean Luvisa - *Leap Wireless International - Chief Financial Officer and Treasurer*

I think that the team is focused on trying to pull break-even into its tighter time period as we can. And that's why we are in a position when we talk about the $5 number, that really has representative of the EBITDA line investment that we need to make, and that is a testament that we are focused on trying to both reduce the amount of spend and allow that to occur at either lower penetration or sooner.

Romeo Reyes - *Jefferies - Analyst*

Thank you very much.

Dean Luvisa - *Leap Wireless International - Chief Financial Officer and Treasurer*

Thank you, Romeo.

Operator

And your next question comes from the line of Phil Cusik with Bear Stearns.

Phil Cusik - *Bear Stearns - Analyst*

Hi guys, thanks for taking my questions. I wonder first if you could talk about ARPU and take rates on the $45 plan. I know it's earlier, but is there any early indication if you give us on that?

Albin Moschner - *Leap Wireless International - Exec. Vice President and Chief Marketing Officer*

We have seen stronger uptake towards the higher part of our rate profile. The value that is in better than that as we rolled out our new products and services has driven people towards our higher value plan. So, it is towards the higher end.

Phil Cusik - *Bear Stearns - Analyst*

I am sorry. Towards the higher-end --

Albin Moschner - *Leap Wireless International - Exec. Vice President and Chief Marketing Officer*

Toward the $45 rate plan, excuse me Phil.

Phil Cusik - *Bear Stearns - Analyst*

So towards the higher end of customer have taken the $45?

Dean Luvisa - *Leap Wireless International - Chief Financial Officer and Treasurer*

Yes.

Phil Cusik - *Bear Stearns - Analyst*

Okay so the majority of the customers are taking the 45.

Dean Luvisa - *Leap Wireless International - Chief Financial Officer and Treasurer*

Yes. The majority of the customers are taking the higher rate plants. That's delivery (ph)

Phil Cusik - *Bear Stearns - Analyst*

Okay, that's great. Second of all, I wonder any expected timing on the license transfer From the SEC of those new markets?

Doug Hutcheson - *Leap Wireless International - President and Chief Executive Officer*

I need to answer that also cautiously. We do not know. We have anticipated that it would occur during the course of the summer. But that is our planning premise. We are not in a position to make commitments on behalf of the SEC. We will look forward to then getting upon with this process promptly. With that said, there's a lot of activity that we can do to get ourselves prepared and to do the build out in an efficient manner after the licenses have transferred.

Phil Cusik - *Bear Stearns - Analyst*

And finally, a couple of quick questions, on the EBITDA guidance, I assume that includes any impact from the Michigan and the tower sales?

Doug Hutcheson - *Leap Wireless International - President and Chief Executive Officer*

Yeah it incorporates at this point all of the impacts that we know up to 2005 guidance. So it would include that as well.

Phil Cusik - *Bear Stearns - Analyst*

Okay. Then the remaining spectrum portfolio, do you have is that should we assume that it's still up for sale?

Albin Moschner - *Leap Wireless International - Exec. Vice President and Chief Marketing Officer*

The company has and will continue to be consider reasonable offers for our spectrum. There is no change expected in our current practice on that.

Phil Cusik - *Bear Stearns - Analyst*

That is great. Thanks a lot guys.

Albin Moschner - *Leap Wireless International - Exec. Vice President and Chief Marketing Officer*

Thank you, Phil

Operator

And you know the question comes from the line of Tom Lee with JP Morgan.

Tom Lee - *JP Morgan - Analyst*

Hey, guys. How are you?

Doug Hutcheson - *Leap Wireless International - President and Chief Executive Officer*

I am fine, how are you?

Tom Lee - *JP Morgan - Analyst*

Great. I mean really, really (technical difficulty) number and I just wanted to ask a couple of follow-up questions. One of the questions I wanted to ask was with regard to jump and I know that in the past you guys have going to said that in general because use cash counting, that quarterly results tend to be pretty lumpy or jumpy as you guys note. I was wondering if when you launch jump as a product, which is pure prepaid, if that is going to increase soft of the lumpiness of these numbers. And if you could give us kind of read just on whether or not you think it's kind of being clearly separated in the customer's minds that jump is different from your traditional Cricket product? And then the second question I have, just relates to your new market doors (ph) one of the things that I think lot of investors seems to be interested in this as for you guys to provide a format where you can distinguish the dilution and the spending associated with your existing markets versus new markets. And I am just not sure if you're going to a formalize hat in the queue or not or if there will just be something that you guys will only address in the quarter. I understand on that, I was just curious that you know the $5 per pop number you gave on operating expense, was that per year or was that cumulative over these three years? Thanks.

Dean Luvisa - *Leap Wireless International - Chief Financial Officer and Treasurer*

Let's we will break that. Let me start with your last question. The $5 number is the expectation over '05 '06 and '07. So it is a cumulative number. The second pieces, I think in time we will start to look at ways we can communicate how the existing markets are doing. And then due markets are we are probably not going to do that right away, because I think the impact initially will be mostly on the capital line. And we will start to move to a broader impact and we certainly will give investors an idea of how the business is breaking apart Tom. I think that would be useful and helpful. The lumpiness of results, which really has to do with the seasonality in our business, we are not far enough along yet on jump to see how that is going to move through the revenue profile. So, I think our initial reaction would be to say that it will probably come through in a similar manner. As our core business and if it starts to develop differently than that we will update you. And then, Al I think you are in a position to talk a little bit about how customers see jump versus the rest of the product.

Albin Moschner - *Leap Wireless International - Exec. Vice President and Chief Marketing Officer*

Yes. Tom when we designed jump, we really wanted to give ourselves a fact that gave us incremental growth. As you know, our current customers are pretty heavy users. Our average usage is 1500 minutes or more. What the industry in the market was telling us is there were folks that really wanted to have a product that was not coincident with a monthly billing cycle. It was more of a pay as you go. Those users tend to be less heavy in their usage. And so we felt that we wanted to do two things, a) construct a product that in fact, went after that incremental growth, and b) make it somewhat Cricket like and that we wanted to offer a significant and compelling value to the consumer above what you could buy from other competitors in prepaid today. Hopefully that answers your question.

Tom Lee - *JP Morgan - Analyst*

Yes that is very helpful. Thanks guys.

Operator

And your next question comes from the line of Todd Weithemeier with Ceterre Research (ph).

Todd Weithemeier - *Ceterre Research - Analyst*

hi hood afternoon, everybody. Could you quantify you had 3.9% Churn for 2004. Could you quantify that as involuntary and voluntary? Give us a break out on that.

Albin Moschner - *Leap Wireless International - Exec. Vice President and Chief Marketing Officer*

That is not how we look at it. That is why we talk bout the three principal areas that we had which has-- at the beginning of 2004, the largest area that we had, and we have never released specific percentages on it, but it was certainly the largest. This was an ability to pay. Now could can argue that was either involuntary or voluntary. It varies in different peoples interpretation. But what we did you through the course of the year as introduced our whole series of programs and different payment options and such that allowed us to attack that percentage or that a larger percentage. And that's why we think we saw the year-over-year principal reason that we saw the year-over-year improvement. The next area that was important in churn for us was handsets. What we have done, if you go back to late 2003 and if you would look at the velocity that we done on handsets and the changes that we've made in our hand set lineup, it has gone from black-and-white candy bars to a diversified mix of all color with increased data capability and clam shells and a variety of other handsets. Interestingly enough, the up take on that has been pretty positive, not only with the new customers as was mentioned in the financial section you have seen a lot of movement toward higher priced handsets, which were subsidy neutral on that. We have seen existing customers try and take advantage of those new handsets and extend their service with us. We have done that a part in our own actions. We have also done this with some incentives for tenure-based incentives. But the area that we're really focused on right now is the basic product set, which is why you're seeing this to the amount of effort in next or over the last six months. You will watch it continue to work on that over the next year. Also wrapping up our product features that we did not invest substantially on that during the restructuring and the process that we were under and then came that we have really ramp that up and beginning in the third quarter and have a lot to show for it at this point. I look forward to continuing the process and make progress in that area with an anticipation that we will start to address that as a churn later this year as the as products get in place.

Todd Weithemeier - *Ceterre Research - Analyst*

Related to the new products, you relaunched the brand and change the pricing in early April, I am wondering if you could give us any color on how that is going? It has only been a little over a month, but I look at the growth statistics fourth quarter to first quarter, they look to be down quite a bit which I was surprised by. They saw what I have seen so far in the first quarter numbers, it looks like your subscriber guidance 150,000 to 200,000 looks to be a little aggressive. What you seeing the big uptake in the second quarter here. Can you comment on that?

Dean Luvisa - *Leap Wireless International - Chief Financial Officer and Treasurer*

Todd, let me take a crack it that. We have seen as Doug mentioned a very positive response to the changes we've made in early April both in mix of the service plans that are chosen as well as the response from our customers. It is still early, but I think we are encouraged by what we see. We clearly with the brand have created quite a bit of excitement. I mentioned to you that we wanted to take advantage of the brand equity that was already there, but given a fresh look. More importantly, what is generated very significant excitement is our advertisements using our own customers. We have had tremendous response from that. They have been really big events when we've had these casting calls in place. In fact they have been so successful that we really want to continue that process throughout the year and the markets have found some very good results from that Public Relations activity. We are encouraged by what we're seeing.

Todd Weithemeier - *Ceterre Research - Analyst*

Okay, any change I can get a number or percentage up or down from growth advertisements from March to April?

Doug Hutcheson - *Leap Wireless International - President and Chief Executive Officer*

No. We are not in a position to release that at this point. What we will do is give you an insight. Hopefully, we will be back to you within the next few weeks with the first quarter and the will to give you some more input on that.

Todd Weithemeier - *Ceterre Research - Analyst*

Okay. Thanks.

Operator

Your next question comes from the line of Tim Lash (ph) with Third Point Management.

Tim Lash - *Third Point Management - Analyst*

Congratulations, everybody on getting the numbers out. We have all been waiting with bated breath. Couple of quick questions. First on roaming product, you've come out with some rates for that product, would you imagine overtime as you are able to deliver a greater minute volumes to your roaming partner that those rates would decline and that you are paying and you would be pointing out through for your customers? Can you talk a little bit about where pricing goes on the roaming side?

Doug Hutcheson - *Leap Wireless International - President and Chief Executive Officer*

Having had the product out for about seven or eight days, we are in the process of getting our arms around how is going to operate and perform. You probably do not want to put the product out initially unless you're comfortable that it is going to not be diluted to the margin in your business. Like a lot of the things that we have launched, whether it was how we initially to call long distance or text messaging were lot of products that we got, we have gotten results under our belts. We have been straightforward in adjusting pricing to a level that we think is practical for the business. We certainly are not contemplating to date any changes in our pricing on that. We will operate the product carefully and try to see what we can do to maximize the results of the business.

Tim Lash - *Third Point Management - Analyst*

Do your roaming agreements contain volume break points, or their fixed price that you have to go back to renegotiate?

Doug Hutcheson - *Leap Wireless International - President and Chief Executive Officer*

We have a variety of different agreements. We have four or five agreements in place at this point. Maybe six agreements and they all have different characteristics to them.

Tim Lash - *Third Point Management - Analyst*

Got it. Can you tell me what the composition of the restricted cash bucket on the balance sheet is at this point? Is there a prepayment option 58, what was the size of that?

Doug Hutcheson - *Leap Wireless International - President and Chief Executive Officer*

No, the restricted cash portion Lakes to cash held for liabilities related to bankruptcy.

Tim Lash - *Third Point Management - Analyst*

Okay.

Doug Hutcheson - *Leap Wireless International - President and Chief Executive Officer*

That is the biggest portion with the FCC auction deposits are not in that restricted cash.

Tim Lash - *Third Point Management - Analyst*

Okay, thank you. And then lastly on your BREW handset mix in the first quarter, does that reflect the take rate on the higher ARPU plans? Was it more than 50% of the handsets in the first quarter BREW handsets?

Doug Hutcheson - *Leap Wireless International - President and Chief Executive Officer*

Well remember that higher rate plans did not really come out until April. We had higher rate plan spec prior to that. We had unlimited plan as an example at $50 to $55 depending on how you pay for it. At this point, the BREW handsets really started to get rolled out late last year and early this year to get put into the mix. It will take us probably six or eight months to get the penetration of handsets.

Tim Lash - *Third Point Management - Analyst*

Last question, I know you are waiting for some accounting agreements to be determined for the and NOLs. Has there been any update on that as to where that fell out? Just give us an update just in general on the NOLs.

Doug Hutcheson - *Leap Wireless International - President and Chief Executive Officer*

We do not have a specific update right now on NOLs Tim.

Tim Lash - *Third Point Management - Analyst*

Okay, great. Thank you.

Operator

Your next question comes from the line Ethan Schwartz with CRT Capital Group.

Ethan Schwartz - *CRT Capital Group - Analyst*

Hi, most of my questions have been answered is just a couple of follow ups. First of all on the $5 give me whether if expense for new markets, What is the timeframe of which that $5 is spent? In other words, how long until your penetration gets to the point where that expense starts to reverse?

Doug Hutcheson - *Leap Wireless International - President and Chief Executive Officer*

Let me take a couple of other questions I have answer and try and put them to together around that. The timing again is predominantly in 2006, although there is an impact, some impact in 2005 and 2007. Basically we have not announced when how long after launch we think market is going to be free cash flow break-even or that will go away. But what we are doing and will do is everything we can to have that occur as properly as it can after launch. And so, there will be a little we expect some of it in 2007, but not substantial amount.

Ethan Schwartz - *CRT Capital Group - Analyst*

Okay, and then you mentioned that there are some markets that you have much higher than average penetration, and I guess you first suggested that those are the types of markets UN after in the option. What of the sort of the chief characteristics of those markets that you can catch them with the broad brush?

Doug Hutcheson - *Leap Wireless International - President and Chief Executive Officer*

We want to be little cautious and getting too specific on that. But our customers, if you go back to the demographics of the customers that we have a spoke about that we attract, we skewed toward a younger demographic, more ethnically diverse, that has moderate household income. To the degree markets have that set of characteristics, we do better. If you have markets that do not have that, that may have a different age demographic or different financial characteristics, we do not necessarily have a stronger financial performance or penetration in those markets.

Ethan Schwartz - *CRT Capital Group - Analyst*

Okay. And then just a technical question. I guess the implication with the 5.3 million in Q4 is that sort of an unusual charge, I guess I don't of another tried to put on unusual expense, I guess I don't get exactly the mechanics of that in other words. And maybe set this audio, was it the case in the past that only a certain percentage of the people eligible for rebate actually claim them or was this a time effect of rebate being forward?

Doug Hutcheson - *Leap Wireless International - President and Chief Executive Officer*

The former versus the latter. We have run the step of rebate campaign and used estimates around its uptake for several years. We saw some changes in customer behavior and an increase as a result of that. We have adjusted our estimates. With that said, what we did go to some length and what's we feel good about is we have put an awful lot of new stuff in the business, new products, new services. The way that we deal with customers, merchandising, a whole variety of different things and well we are hopeful is the role of mail in rebates will be lost in the future. You're not saying we wont do mail and rebates but certainly as we were waiting for product to come on line, which was a some substantial time period. Mail in rebates were pretty important part of our growth strategy. While we are looking for to having them as a less important part as we look ahead.

Ethan Schwartz - *CRT Capital Group - Analyst*

Okay thanks very much, I appreciate it.

Operator

And you now have a question from the line of Geoffrey Smith with Evergreen Investments.

Geoffrey Smith - *Evergreen Investments - Analyst*

Hi guys can you just remind us what you ended the year terms of the amounts of the old Bell? Then second is what do you expect appreciation and amortization to be for 2005?

Doug Hutcheson - *Leap Wireless International - President and Chief Executive Officer*

At the end of the year, we cannot update from what we discussed previously. We are working through accounting estimates and obviously the use of the analog and expand our ability to generate appropriate cash going company.

Geoffrey Smith - *Evergreen Investments - Analyst*

And I think well we guided to previously was in the $540 million range.

Doug Hutcheson - *Leap Wireless International - President and Chief Executive Officer*

It is potentially subject to change as we continue to review it. One of may change a little bit as we put our 10-K as you see our 10-K get filed.

Geoffrey Smith - *Evergreen Investments - Analyst*

And D&A?

Doug Hutcheson - *Leap Wireless International - President and Chief Executive Officer*

Depreciation and Amortization for way 2005, we have not given a particular forecast on that, but depreciation and amortization run rate after we changed our usual lives coming through bankruptcy sort of normalized that will of course go up as we continue to spend money on additional capital expenditures D&A one is going to increase with those expenses.

Geoffrey Smith - *Evergreen Investments - Analyst*

Okay, thank you.

Operator

And your next question comes from the line of Kevin Roe with Roe Equity Research.

Doug Hutcheson - *Leap Wireless International - President and Chief Executive Officer*

Hi Kevin.

Kevin Roe - *Roe Equity Research - Analyst*

Hi guys, just a follow on the D&A, is the Q4 D&A number a good place to start for Q1?

Doug Hutcheson - *Leap Wireless International - President and Chief Executive Officer*

The Q4 reflects the first four quarter with our revised useful lives of our assets. And it is also includes the amortization expense associated with the intangible assets coming out of the fresh start accounting. Q4 is generally inappropriate number of the changes again we are going to reflect mostly from the result of increase expenditures other increase capital expenditures.

Kevin Roe - *Roe Equity Research - Analyst*

So you think it will be that Q4 number would be up from that or down from that in Q1?

Doug Hutcheson - *Leap Wireless International - President and Chief Executive Officer*

It is likely to go up.

Kevin Roe - *Roe Equity Research - Analyst*

Okay. On CapEx, if you don't have given your guidance if you build that all part 18 million parts at that $28, that is about $500 million expenditure you are guiding about a 100 million of that this year. You have about 400 million left for 2006. It looks like to have an $80 million CapEx run rate. So if you add that it together for $80 for 2006, sort of our decent

Doug Hutcheson - *Leap Wireless International - President and Chief Executive Officer*

We are not in a position to give specific guidance here on 2006. I think you can use the numbers and draw a conclusion what you think is going to happen based on the guidance we had given you Kevin.

Kevin Roe - *Roe Equity Research - Analyst*

Okay and given the capital expenditure for 2006, given your guidance, you mentioned Doug, that you consider capital market activities, how soon do you need to getting some more cash and how much additional financing do you need to execute your whole option 58 build out and its over in the cash flow losses etc?

Doug Hutcheson - *Leap Wireless International - President and Chief Executive Officer*

Well I think what I said specifically during this call is that we felt like this year that the operating income from the business was what we expected to spend, that would be in a pretty neutral situation. So, as far as '05, we have every reason to believe we are in a fairly neutral situation. The company what timing or what we might consider to we are not in a position to release anything. The company will take advantage prudently of whatever opportunities are appropriate. And at this point, do not have any specific activities, nor a specific plan in place that requires us to raise money.

Kevin Roe - *Roe Equity Research - Analyst*

Okay, thanks.

Operator

And to the next question comes from the line of Zack Collin (ph) with Colorado Asset Management.

Zack Collin - *Colorado Asset Management - Analyst*

My questions have been answered thank you.

Doug Hutcheson - *Leap Wireless International - President and Chief Executive Officer*

Thanks Zack.

Operator

And you know the question is coming from the line of Josh Khan (ph) with Fairlong Capital (ph).

Rajeev Patel - *Fairlong Capital - Analyst*

It's Rajeev (ph) Patel I got two quick questions, the ARPU in Q1 can you talk about that in a qualitative rate just to adjust it perceives an audit for the churn, compared to Q4 and what we should expect going forward.

Dean Luvisa - *Leap Wireless International - Chief Financial Officer and Treasurer*

Well you see maybe, two or three things if you look at our ARPU annually it reflect this up and down with churn. And our first quarter is always are lowest churn has typically been our lowest churn quarter and so you will see upward pressure on ARPU. And as the year progresses, assuming that same seasonal characteristics we'd continue. You would probably see pressure in the other direction on ARPU. With that said, this year's they know, because as maybe had some reason to be a little bit more optimistic because of the rate plans that are out there and the new products and services in features that are there. And when we talked to the people previously in December, one thing that we said and we continue to see that we generally have upward pressure on ARPU versus downward pressure. And we did see that and we expect to continue to see that. And with that said, that as we add in increase services we probably would bring those into bundles in that number probably it doesn't go much higher than $40. So we asked people caution people to be cautious in long-term estimates for ARPU.

Rajeev Patel - *Fairlong Capital - Analyst*

Thanks. And Doug and then you talked about the break up of the type of operating burn to free cash neutral or will we see the (indiscernible) neutral? How much of that is in '05, and then you said that's small in '05 and '07. But if we try to run our models for that current business, I'm trying to compare that number to be 245 to 270 what were the cost of the new markets?

Doug Hutcheson - *Leap Wireless International - President and Chief Executive Officer*

WE haven't released a specific number on what that is and what will do is take a look at that and see next time we get together if we can get a little bit more information around that.

Rajeev Patel - *Fairlong Capital - Analyst*

Okay, fair enough. And can you tell us what contribution you could expect from joint subscribers in the net debt items?

Doug Hutcheson - *Leap Wireless International - President and Chief Executive Officer*

At this point joint subscribers do not play a large role in our net debt guidance. We would expect to stay conservative on that and let the product roll out into the market and gain experience with it and see how that customer profile works. We think its got potential would be interesting. But we would feel more comfortable to let a little bit more time pass before we integrated in a larger way in our business. So we have got our core prior changes that we have made we have got jump coming on line and then later in the year we have Fresnel (ph) as well that all factors and how we look at our customer guidance.

Rajeev Patel - *Fairlong Capital - Analyst*

so that is all included but do not remembers or the incremental to that item?

Doug Hutcheson - *Leap Wireless International - President and Chief Executive Officer*

All included at this point.

Rajeev Patel - *Fairlong Capital - Analyst*

Okay. Great, thanks great Q1 guys.

Albin Moschner - *Leap Wireless International - Exec. Vice President and Chief Marketing Officer*

Thanks Raj.

Operator

And your next question comes from the line of John Goldberg with Goldberg Advisors (ph).

John Goldberg - *Goldberg Advisors - Analyst*

Hi. Could you talk a little bit more about the prepaid services there is a chance of that number of locations year end you have it installed in and where we I think you if you get up by the end of the year, where you think you could get it eventually the number of locations and just some rough comments on how profitabilities or how you measure how profitability?

Albin Moschner - *Leap Wireless International - Exec. Vice President and Chief Marketing Officer*

John this is Al Moschner. We initially launched jump in our traditional channels, which means in our direct stores and also with our current indirect partners. Our plan is to Doug mentioned, one or two really sort of understand the dynamic of this product, which we are learning currently we do expect in the future to increase the distribution substantially. There are other locations that tend to high-prepaid locations, convenient stores, mass emersions on the light that we are having discussion with to introduce jump to, and as we get more comfortable with performance in our own channel. We then, we will take it in the more you big (indiscernible) direction.

John Goldberg - *Goldberg Advisors - Analyst*

So you are having, you can give us any rough number on where you think you can get the number of location by the end of year where they are now

Doug Hutcheson - *Leap Wireless International - President and Chief Executive Officer*

We've currently we are in the around 6 to 700 locations. And we expect that number could get us high as a couple of thousand by the end of the year.

John Goldberg - *Goldberg Advisors - Analyst*

Okay, and how do you measure the profitability on that? Is that a return our capital or just margin and how should we look it out.

Doug Hutcheson - *Leap Wireless International - President and Chief Executive Officer*

Well, we look it all of our decision on a net percent customer, net percent value basis, and when we do net on NTV basis. We include capital and how we look at things, and we will move into a space, and we didn't think it has substantial positive NTV contributions for us. So we would include the return on the capital and then as well.

John Goldberg - *Goldberg Advisors - Analyst*

Okay can you give us sort of I know that I will allowed national carriers or lowering rate instead of go through what would your value our position is to that consumer why they would choose new product over singular price or whatever.

Doug Hutcheson - *Leap Wireless International - President and Chief Executive Officer*

Well first half well there is always a little pricing movement is going on, we had not see substantial pricing movement, and have seen actually in more stable pricing environment verus a year too ago. So what is going on is changing or increasing a value in the buckets that are there. Are you seeing increase services and we now that we will bringing, out those products, we expect to continue to do the same thing. We always re-periodically would be a better way to say see people come out with the unlimited bucket plans that's going on for 3 or 4 years. And now as an example of few carriers that come out their price substantially higher that have contracts with them, long term commitments with them, or would different for 3 or 4 different for 3 or 4 reason. The first is we are able to bring a lot more value at the price point that we provide, and we are able to do it at attractive margin for our business because of our bottom up cost structure the next pieces we are now able to add new products in services to those bundles. So that we can continued bring new customers on board with product services, and values that they think are important for them. The last pieces we don't include contracts and then allows us to go into that. As now said the hard of the remaining wireless penetration is out there. Well there is with our core product attacking that demographic this unique demographic that we done so well, and which is younger more athymically diverse and economically in kind of the middle of the field. As well as new jump product as you watch the lot of the penetration come in the prepaid space. We now have the product in that spaces as well where you seen a lot of incremental penetration. So I think we've got we are in the right place, and we are going after to the right customer. We just need to continued push ahead.

Operator

And your next question comes from the line of Nahir Shaw (ph) with Merrill Lynch.

Nahir Shaw - *Merrill Lynch - Analyst*

Few questions. Is it possible to give us an update on cash in investment, number ProForma for new client facility?

Doug Hutcheson - *Leap Wireless International - President and Chief Executive Officer*

Well our unrestricted cash and cash equivalents and investments was 254 million at the end of the year and then shortly after the end of the year we refinance the debt which yielded net proceeds of about $60 million. To increase that deposits our deposits actually paid the full amount for the licenses to be acquired by the full side lease and then also funded money to handy one. For deposits with auction 58 that total was $235 million. So I think that gives you through kind of the early part of the first quarter on the big picture numbers on top that is obviously operating cash flow. So that generate for that quarter. And then later on in the year as our transactions pending with our sale of our operating markets in some of our extra spectrum licenses in our towers close that will yield about another $118 million later on in the year.

Nahir Shaw - *Merrill Lynch - Analyst*

Okay. Was that all of that 235 debt subsequent to the end of the last year? What was that deposit state in the fourth quarter?

Doug Hutcheson - *Leap Wireless International - President and Chief Executive Officer*

There was a deposit paid in the fourth quarter of approximately $12 million

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Dean Luvisa - *Leap Wireless International - Chief Financial Officer and Treasurer*

$28 million

Doug Hutcheson - *Leap Wireless International - President and Chief Executive Officer*

Sorry $28 million by the end of the year and the remainder was faced in the first quarter.

Nahir Shaw - *Merrill Lynch - Analyst*

Okay terrific. And as far as your last programmer how you are going to treat those in your financial and how is it going be consolidated with minority interest through for their stake as go forth here.

Doug Hutcheson - *Leap Wireless International - President and Chief Executive Officer*

First is remember that a broadband is its own company and it is got separate management and is in control of their company for the FCC guideline. So but under 146 that will be consolidated in our results.

Nahir Shaw - *Merrill Lynch - Analyst*

Okay.

Doug Hutcheson - *Leap Wireless International - President and Chief Executive Officer*

One last question and we are going to wrap it up here.

Nahir Shaw - *Merrill Lynch - Analyst*

Okay. Last quarter on the deposit can you just go over the component to that and does that include marketing cost for the new market and if not how should we look you know CPGA going forward you talk a little about that, how is your churn grow 150 per gross ad. Should we expect that churn back up with the additional market in the second half of the year?

Doug Hutcheson - *Leap Wireless International - President and Chief Executive Officer*

No we don't anticipate the trend back up as the result of the additional markets. And the $5 would include the CPGA expenses associated with the early part of moving that market to free cash flow EBIDTA break even.

Nahir Shaw - *Merrill Lynch - Analyst*

Thank you very much.

Doug Hutcheson - *Leap Wireless International - President and Chief Executive Officer*

We have time for one more questioner.

Operator

Yes sir. And your final question will come from the line of Mike Beck (ph) Eagle Capital.

Mike Beck - *Eagle Capital - Analyst*

Just one question on the expected interest expense for the 2005 at current run rates at current interest rates, what would you expect interest spending to be?

Dean Luvisa - *Leap Wireless International - Chief Financial Officer and Treasurer*

The interest expense can be between $6 million and $7 million in the quarter really relates to where interest rates go for the year. But the pricing on the law that we refinance is LIBOR plus 250 basis points. We have swapped a portion of that facility to fix.

Mike Beck - *Eagle Capital - Analyst*

Terrific Thanks.

Doug Hutcheson - *Leap Wireless International - President and Chief Executive Officer*

All right. Thank you very much. I thank all of you for participating in the call today. I hope you come away from today's call with a better understanding of how we are shipping our future and the great strives we are making in pursuit of our vision as the driving ports and telecommunications industry. Our goal for 2005 is to execute on the opportunities we have discussed today including our product development initiatives, building our brand position, new market build up, launch activity, expanding customer growth and increasing profitability. It is an exciting time and I feel fortunate to be a part of this opportunity. On behalf of the employees, officers and directors and we thank you for your continued interest and support. We look forward to talking to you again in June when we release our first quarter. If you have any further questions about our results for this past quarter or our plans in the future please contact Jim Seines, our Director of Investor Relations at 858-882-6084. Thank you.

Operator

Ladies and gentlemen we thank you for your participation on today's conference. This concludes the presentation and you may now disconnect. Good day.
