FINAL TRANSCRIPT

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LEAP.OB - Q3 2004 Leap Wireless International Earnings Conference Call

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OVERVIEW

3Q04 total revenue was approx. $206m, representing a growth of nearly 7% over 3Q03. Combined net income was approx. $950m, reflecting the net impact of fresh start accounting and the other bankruptcy related changes to the balance sheet. Total revenues for 2005 are expected to be between $875-950m with adjusted EBITDA between $235-270m. Q&A Focus: Fresno, CapEx, debt, cash, ARPU, and NASDAQ listing.

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PRESENTATION

Operator

Good day ladies and gentlemen. Welcome to the Q3 2004 Leap Wireless International earnings conference call. My name is Kandice (ph) and I will be your coordinator for today. At this time, all participants are in a listen-only mode. (Operator Instructions). As a reminder, 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. Please proceed, sir.

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

Thank you Kandice. Good morning and welcome to Leap's third quarter 2004 conference call. Please accept our apologies for the delay in starting our call today, but we wanted to give everyone a chance to get online before starting.

This call is being recorded and will be available for playback in the U.S. through November 30 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 945-78179. These playback numbers are on our press release today, and are available on our press release today in case you didn't get them all written down.

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

Regarding upcoming Company events, we will be presenting in January at the CitiGroup Smith Barney conference in Phoenix, Arizona. Additionally, representatives of the Company are planning an informational non-transaction roadshow during the week of December 13 that will concentrate on New York and Boston and the Midwest and West Coast areas.

Joining me on the call today to discuss the results of the third quarter are Bill Freeman, CEO; Doug Hutcheson, CFO; Glenn Umetsu, our Chief Operating Officer. Following our prepared remarks, Kandice will come back online to remind you of how to key in for the question-and-answer portion of the call. During the Q&A period, Dean Lavise (ph), our Vice President and Treasurer, will be available to answer questions as well.

During our call today we will be discussing some financial metrics which do not conform to generally accepted accounting principles in the U.S., or GAAP, 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 should be considered in addition to, but not as a substitute for, the information prepared in accordance with generally accepted accounting principles.

For reconciliations of non-GAAP financial measures that will be discussed today to GAAP, please access to financial information page of the Investor Relations section of Leap's Web site, www.LeapWireless.com.

Today's conference call was preceded by our earnings release in the third quarter. This release has been distributed on the news wires and is available on the Investor Relations section of our Web site. Today's call should be considered together with the information contained in our earnings release. We also refer you to additional information that will be available on our Form 10-Q for the third quarter, which we expect to file on Monday, November 22.

Before we start, I would like to remind you that statements made today that are not historical in nature, including any statements about our expectations regarding future events and performance, are forward-looking statements and inherently involve numerous risks and uncertainties.

For example, projections of future performance and statements including forward-looking words such as hope, expect, plan, intend, believe, think, anticipate and similar expressions 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 risks and uncertainties associated with our business. Factors that could cause actual results to differ from our forward-looking statements are detailed in the section entitled Risk Factors included in our quarterly report on Form 10-Q for the fiscal quarter ended September 30, 2004 and in other SEC filings.

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, and is being provided for general informational purposes. It 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 investing in any securities.

This communication is qualified in its entirety by reference to all information disclosed by Leap in its press releases and its public filings with the Securities and Exchange Commission. With that, I would now like to turn the call over to Bill. Bill?

Bill Freeman - *Leap Wireless International, Inc. - CEO & Director*

Thanks Jim. And good morning to everyone. This is the first earnings conference call for Leap in over 2 years, and our first since emerging from our financial reorganization on August 16. I want to sincerely thank you for joining us today as we discuss the results of the third quarter, and the continuing excellent progress we're making as we move through this year of transition and take action to accelerate our Company's growth.

I want to open this call by talking about the strengths of what I see going on in the business today. 2004 is a landmark year for our business. Our performance continues to be substantially ahead of where we thought it would be a year ago. And the results we've reported for the third quarter continue to reflect the solid financial platform we have established as a high-value, low-cost leader in the wireless industry.

During our restructuring we took the necessary steps to deal with our capital structure, resulting in a debt reduction of approximately $2 billion, while simultaneously growing EBITDA and cash flow. As a result, we have emerged from our financial restructuring with a strong balance sheet and leverage ratios that are among the lowest in the industry.

As we have announced, we expect to further improve our capital structure and lower our cost of capital through the syndication of a term loan and a revolving credit facility to refinance our existing debt and to provide the business with the financial flexibility to take advantage of opportunities for growth that we believe will further strengthen our business and provide increasing value to our shareholders.

During the restructuring, we've also focused on improving our top line revenue. We've seen growth in our service revenues through the introduction of new rate plans that were designed to stimulate higher ARPUs from our customer base. We've also seen equipment revenue growth resulting from the new handset pricing structure which we introduced in the fourth quarter of last year.

These increases in revenues, combined with the substantial improvements in our cost structure, have significantly improved our ability to generate free cash flow and have moved us substantially closer to profitability.

We've used the tools available to us during our restructuring to reduce our costs and significantly improve the customer NPV (ph) of our business. As a result of the broad range of activities undertaken by our management team during this restructuring, we reduced our operating expenses by more than $130 million per year on an annualized basis. The success of our efforts on this front is readily apparent in the low CPGA and CCU metrics we continue to report. We think that our cost structure today represents a key strategic advantage for our Company.

While the cost of delivering minutes for other wireless carriers is approximately 4 cents per minute, we're delivering them at just over a penny. While other wireless carriers are generating EBITDA margins in the mid 30 percent range off an ARPU of approximately $55, we are generating similar margins on an ARPU that is around one-third less.

We're able to do this by virtue of our purpose-built business model and our low cost structure. We intend to keep our operating cost advantage as we execute on our plans to drive to growth of our business, and by doing so release the power of our business model.

We firmly believe that the operational and financial strength of our business today indicates that were on the right track. Early after our emergence, we outlined the elements of our strategic plan. As you will hear today, we are executing on this plan by continuing to focus on cost while we improve the value proposition to our customers in order to grow our top line results.

With that, I would like to now turn the call over to Glenn for a review of our operational performance in the third quarter. Glenn?

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

Thanks Bill. Good morning to all of you who have joined us today. Having successfully completed the Company's financial restructuring, our management team has turned its attention to creating the platform for our next phase of growth. The areas we are addressing run across all facets of our operations, from evolving our products and services to better meet occurred current and future needs of our customers to how we market our service and care for our customers throughout their tenure.

We have introduced and continue to develop new systems, processes and procedures that are intended to improve the efficiency of our operations and reduce costs. While some of these benefits will flow to our bottom line, we expect to increase our focus on building top line revenue and leveraging the ability of our business model to move a substantial percentage of this incremental revenue to EBITDA.

For third quarter '04, we achieved gross customer additions of approximately 200,000, an increase of more than 10 percent over the 180,000 gross adds in the prior quarter. Gross additions for the third quarter were somewhat lower than in the same period last year.

We believe that the federal Child Tax Credits that our customers received in the third quarter of 2003 lifted our gross customer additions last year and made for a particularly good sales quarter then. Although we did not see the results we had expected for customer activity during the past quarter, we expect to see growth in the fourth quarter as reflected in the revised 2004 guidance we published in our earnings release.

Churn for the quarter was approximately 4.5 percent versus 3.7 percent for the previous quarter and 4.5 percent in the third quarter of 2003. While it is normal for Cricket to experience our seasonally highest quarterly churn during the third quarter, we're not satisfied with our churn performance. However, as you can see in our earnings press release, we have improved our 2004 guidance range on churn to 3.8 percent to 4 percent from the previous range of 3.8 to 4.2 percent, reflecting our expectation of improvement in the fourth quarter.

The primary reasons for deactivations include -- 1, customers' inability to pay; 2, customers' need or desire to replace their handsets; and 3, our current product features and capabilities. I will take a few minutes to discuss each of these reasons.

During the past several years, customers' inability to pay has declined as a reason for deactivation, as Cricket has provided more flexible payment options and expanded our payment alternatives and locations. While we have made progress in this area, we intend to rule out additional payment alternatives for our customers during the first half of 2005.

We're also focused on customer deactivations associated with handset issues. The handsets we sell have a manufacturer's warranty. And in addition, Cricket offers handset insurance to its customers. However, we still experience deactivations as a result of lost, stolen, and broken handsets.

In order to address this issue, we have tenure-based handset upgrade offers that we provide to eligible customers who need to upgrade to a new handset. While these offers are effective, we're working on additional offers that we believe will enhance customer retention and increase customer value.

The third reason for customers deactivating is our need for additional features in our core product offering. As you can see from our recent press releases, Cricket is working rapidly to enhance the features we offer with our service. By the end of the first quarter, we expect to complete the BREW rollout in all Cricket markets, and the rollout of AOL instant messaging and picture messaging.

In addition, we have added or improved extended calling areas in 6 markets. And we expect to be able to provide customers with the ability to use their Cricket phones when they occasionally travel outside their Cricket service area.

Beyond enhanced payment options, handset upgrade programs and improved service features, we're also very focused on the customer experience at our retail locations and through the call centers that support our customers. We've converted one-third of our retail locations to superstores to provide customers with a higher level of service and to maintain a customer-friendly environment.

In addition, we recently made changes to increase customer satisfaction by improving the interactive voice response, or IVR system, at our call center. These enhancements, along with our new product feature initiative, should increase our ability to extend customer life and build customer value and are some of the factors driving the improved outlook on churn for 2005.

Regarding customer revenue, we continue to see strength in the take rates of our higher end rate plans. However, our ARPU was down sequentially due to primary reasons. First, the increase in churn into third quarter decreased ARPU. Customers who have not paid their last bill continue to be counted as customers until they are deactivated approximately 30 days after their payment due date. We don't receive revenue from these churning customers, however. So if churn turn increases, average revenue per customer declines to some extent.

Second, our service revenues were impacted by new customers who took advantage of the service price promotion we ran during the quarter. While we will continue to see some trailing impact of this promotion into the current quarter, we expect this effect will be mitigated later in the quarter.

Looking at our cost metrics, cost per gross additions or CPGA for the third quarter was $142, compared to the $136 we reported for the third quarter of last year. Looking at the components of this metric, handset subsidies have decreased significantly compared to the third quarter of 2003. Sales and marketing costs per gross addition increased, however, due to increases in marketing production and media costs to support promotional activity in the third quarter of 2004.

The year-over-year increase in spending and the difference in gross adds between the 2 periods were the primary factors contributing to the increase in CPGA in the third quarter of 2004.

Our cash cost per user fell from $22 last year to $18.25 for the third quarter of 2004. The third quarter CCU reflects some positive onetime adjustments. And we expect CCU to move back up around second quarter '04 levels for the fourth quarter. Going forward, we will continue to aggressively pursue cost improvement initiatives across the business. But we anticipate that future improvements in CCU you will be achieved primarily through increasing scale.

Before I turn the call over to Doug, who will review our financial results, I want to briefly touch on the current status of the Fresno, California license. The acquisition and subsequent development of this new Cricket market is contingent upon the FCC's approval of (technical difficulty) license to us.

While we cannot predict the timing of the FCC's review process, we're moving ahead with our planning. We're completing our network design work and have site acquisition teams in the field identifying tower locations and securing site lease options. So we will be ready to hit the ground running when this approval is received.

As we have announced, the addition of the Fresno market, together with an expansion of our footprints in Modesto, Merced and Visalia, is expected to broaden our coverage by an additional 1 million covered POPs, doubling the potential total customers served by our network in the central valley.

We filled out costs at a very efficient $20 to $25 per covered POP. We expect that our network expansion will provide customers with the same high-quality service we provide to our current customers. We hope that the FCC will approve the transfer of the Fresno license by early 2005, and would therefore expect to launch the market during the fourth quarter of 2005. We intend to keep you informed of significant events as they occur.

With that, I would like now to turn the call over to Doug, who will review our financials. Doug?

Douglas Hutcheson

Thanks Glenn. Thanks for joining us on the call today. For the quarter, total revenue was approximately 206 million, which represents a growth of nearly 7 percent over total revenue reported for the third quarter of last year. This improvement is as a result of an approximately $9 million increase in service revenues, due to higher total customers and the improvements we've seen in the take rate of our higher end rate plans. This, combined with a $4 million increase in equipment revenues, is a result of the increase in the retail cost of our handsets during the fourth quarter of 2003.

Now, looking at revenues between the second and third quarter, our service revenues in the third quarter decreased by approximately 2.6 million, primarily as a result of the increase in customer churn combined with the service promotion we ran during the quarter.

Quarter-over-quarter, equipment revenues rose by 2.6 million compared to the prior quarter, driven again primarily by the higher gross additions during the third quarter. Dropping below our revenue line, total operating expenses for the third quarter, excluding depreciation and amortization and impairments, fell by approximately 5 percent year-over-year largely as a result of improvements in the cost of equipment and the G&A expense lines.

The year-over-year improvement in the cost of equipment was primarily driven by decreases in the reversed logistics costs as a result of a new repair vendor agreement that became effective in the fourth quarter of 2003. This improvement was, however, partially offset by an increase in the cost of handsets acquired during the third quarter of 2004, as we've seen a continuation of the trends towards customers buying higher priced (technical difficulty) that have an increased associated cost, and an increase in handset costs associated with upgrades to existing customers.

The improvements we've reported in our G&A expense compared to a year ago -- the year ago period have largely been driven by reductions in our insurance costs by process improvements and other steps we've taken to reduce the costs associated with customer operations, including reduced billing costs and improved call center efficiencies.

Looking sequentially, the quarter-over-quarter differences in our cost of service and G&A largely reflect the impact of onetime adjustments in these items in the third quarter. In the fourth quarter, we expect these expense lines to be more in line with the level experienced in the second quarter of 2004.

Depreciation and amortization expense declined by approximately 19 million year-over-year to 56 million for the third quarter. This reduction in D&A expense resulted from the following -- first, the application of Fresh Start accounting, which reduced the value of our PP&E (ph) by $82 million to approximately 593 million; second, the reassessment of the useful lives of the property and equipment and the resulting change to be extended depreciable lives for certain network equipment assets, consisting primarily of the sell site and switching equipment; and third, the increased costs for the amortization of other intangible assets that we reflect on our balance sheet as a result of the Fresh Start accounting.

Additional information regarding these changes (ph) (technical difficulty) in depreciation and amortization can be found in our earnings release for the third quarter and will also be included in our 10-Q filing for the same period.

Combined net income for the quarter was approximately $950 million, reflecting the net impact of Fresh Start accounting and the other bankruptcy-related changes to the balance sheet. While we all might wish this to be the case, I think it goes without saying that the combined net income for this quarter is not representative of the Company's expected future performance.

With regard (technical difficulty) taxes, we are continuing to review the consolidated tax position for Leap Wireless and its subsidiaries as a result of the restructuring. We expect to finalize the analysis by the time we file our income tax return for the 2004 tax year in 2005. However, based on the analysis we have completed thus far, we believe that we have usable federal net operating loss carryforwards -- NOLs -- of approximately $570 million.

Pursuant to the Internal Revenue Code Section 382, our ability to utilize these NOLs is subject to an annual limitation due to the change of control resulting from our emergence from bankruptcy, as well as the previous ownership change in 2002. We currently expect to have 70 million or more per year from for NOLs available to offset against future taxable income. This number will have a total cap of $570 million, as a previously mentioned.

Our ability to use these NOLs will of course depend on our ability to generate sufficient taxable income. However, for financial reporting purposes, to the extent we generate book income in the future, we expect to recognize income tax expense at the full statutory rate or higher without reduction for utilization of the NOLs.

Pursuant to SOP 90.7 (ph), the utilization of pre-emergent (ph) (technical difficulty) will reduce goodwill for financial reporting purposes. This financial reporting convention does not affect the amount of cash tax we actually pay.

Tax expenses for the financial -- for financial reporting purposes may be higher than the full statutory rate as a result of book expenses that are not deductible for tax purposes, such as portions of the interest on the 350 million senior secured notes and as a result of the increases in the deferred tax liability resulting from the tax amortization of wireless licenses.

Now, turning to the balance sheet, we'd like to highlight the key changes and accomplishments. First, on restricted cash, cash equivalents and short-term investments at the end of the quarter increased to approximately $239 million, a $16 million increase from the prior quarter after the $45 million payment to the FCC upon our emergence in August. Our solid cash position reflects another quarter of strong positive cash flow from operations, including a significant return of normal trade credit terms from our vendors.

Looking at some of the other elements of our balance sheet, we recorded $494 million of net goodwill and other intangible assets as a result of our adoption of Fresh Start accounting in the third quarter. The goodwill component represents the excess of the reorganization value over the fair value of identified tangible and intangible net assets recorded (technical difficulty) in (ph) connection with Fresh Start accounting.

The other intangible assets were recorded upon our adoption of Fresh Start accounting, and consist of trademarks and customer relationships. Additional details regarding other intangible assets can be found in our earnings release and will be available in our 10-Q for the third quarter.

The decline in other assets from 53.9 million to 15 million results from, primarily, the transfer of the investment notes to the Leap Creditor Trust, which was established for the benefit of Leap's pre-petition general unsecured creditors.

Turning to the other side of balance sheet, the $34 million increase in accounts payable and accrued liabilities from the prior quarter primarily reflects the restoration of normal trade credit terms with our vendors. The quarter-over-quarter decrease of 37 million in the long-term liabilities primarily reflects a reduction in the deferred tax liability relating to the application of Fresh Start accounting.

As we announced last week, we are proceeding with the refinancing of both the 13 percent senior secured exit notes and the remaining FCC (ph) debt. The proposed refinancing is expected to consist of 500 million in term notes and a $150 million revolver that will be undrawn at the completion of the refinancing.

We expect that term note facility will fund during the fourth quarter and provide approximately 57 million of incremental cash to the business at closing. The completion of this facility will be yet another milestone strengthening the balance sheet of our Company.

The Company has continued to receive indications of interest in portions of our Spectrum portfolio. During the restructure, this was typically at depressed firesale pricing levels. There has been an increase in the overall Spectrum activity in the in the industry, however. And along with that, we have seen interest in our Spectrum become more substantive and on terms reflective of today's Spectrum market. We will make a public announcement if any of these expressions of interest reach the point of an agreement.

Finally, the Company anticipates submitting its application to NASDAQ during the fourth quarter. We're not, and do not expect to be, in a position to provide any significant updates during this process, but look forward to sufficient completion in our subsequent movement to the NASDAQ national market.

In addition, as Jim mentioned during his introduction, we expect to be active on the Investor Relations front and plan on having a series of informal meetings with investors during mid-December, and expect to participate in several investor conferences early next year.

As Bill will highlight to you shortly, the Company is executing on many different fronts. And this is reflected in today's conference call and our updated outlook for this year and 2005. With the filing of our third quarter 10-Q, we've largely completed the significant activities around the restructuring and now look forward to increased focus on building the business. With this, I now turn call back over to Bill.

Bill Freeman - *Leap Wireless International, Inc. - CEO & Director*

Thanks Doug. As I noted in my opening comments, and as you have just heard from Glenn and Doug, we're making excellent progress across a broad range of activities that are transforming our business and preparing it for the future. With our cost leadership position, market experience, strong balance sheet, and a business model designed to serve under-penetrated customer segments, we believe that we're well positioned to take advantage of the growth opportunities in today's wireless marketplace.

We've improved our break even on the variable costs to acquire new customers to inside of 60 days. For each new dollar in service revenue in our existing markets, 50 to 70 cents flows through into EBITDA. While our cost structure remains one of our primary areas of focus and we intend to continue to explore every incremental opportunity to reduce the costs, we're also aggressively moving ahead with the development of new customer-driven products and services that are intended to generate top line customer and revenue growth, and by doing so create increased value for our shareholders.

We're executing across a broad range of activities that are designed to improve the performance of our business. And I would like to take a moment to update you on where we stand with some of these different initiatives today.

We continue to evolve our Cricket service to better meet the changing needs of our customers, including the rollout of Cricket Clicks, our new BREW-based data service. Cricket Clicks is now available in 25 of our markets. And we expect to have this brought to all Cricket markets by early 2005.

As we recently announced, we've signed an agreement with AOL. And we intend to add instant messaging to our product mix in December, making it even easier for our Cricket customers to stay in touch with families and friends. In September, we announced the signing of an agreement with Comverse to provide us with a platform for our new multimedia messaging service. We continue to make excellent progress in this area. Systems integration and testing are going well. And we expect to bring this new service to the market by the first quarter of next year.

We're making progress on roaming agreements. And we expect that we will announce some gold news on this front before the end of the year.

We're executing on our plans to bring the strength of our cost structure to bear on the prepaid market. Earlier this week, we announced that Voice Q (ph) will provide the platform for this new product. We're making steady progress on our prepaid initiative. And we expect to be in a position to launch our first set of prepaid products in early 2005.

We recently announced that we have brought on board a new advertising agency, element 79, to work with us on the design of strategic and integrated marketing campaigns designed to support and re-energize the Cricket brand in the marketplace.

We are implementing a new market customization strategy that arms our field staff with the ability to customize their marketing programs to the individual demographic and psychographic makeup of our markets. We're creating a more customer-centric culture by realigning and employee responsibilities, performance measures, and compensation with our customer satisfaction goals.

We recently completed the successful launch of a new Voice over IP system that is expected to reduce our long distance expenses to our call centers. We have implemented and launched new IT systems that will allow us to further provide customer care in a more efficient manner.

The Company's Board of Directors has authorized to compensation committee to finalize the details of a long-term incentive plan. We intend to announce the plan publicly and file it as an exhibit to our SEC reports when it is complete.

We firmly believe that we have untapped potential to increase the penetration levels in our existing Cricket markets. We're also exploring the disciplined and measured expansion into new areas that are complementary to our existing market footprint. The pending acquisition of the Fresno, California license is a perfect example of this regional clustering strategy. And as Glenn told you, we are getting ready to hit the ground running upon FCC approval of our acquisition of this license.

As we have said many times, we intend to carefully and selectively review similar opportunities as we continue to solidify our market position. Beyond Fresno, we intend to participate in Auction 58 directly and/or through an arrangement with third parties. We intend to carefully evaluate the acquisition opportunities that present themselves, and make rational decisions based on cost and the expected return on investment that any new additional markets will bring to our business and ultimately to our shareholders.

As we prepare our business for 2005, we're making strong and steady progress, from product development and the design of new brand centric marketing campaigns to further optimizing our capital structure while providing the financial flexibility to execute on the growth opportunities that are presented to the business.

Before I turn the call back over to Jim for the question-and-answer portion, I think it's important to give you some perspective on how we think our current activities will shape the coming year. For 2005, we expect our customer base to grow by 150,000 to 200,000 new net additions. We expect that the new services we intend to bring to the market, combined with our focus on improving the customer experience, will reduce our churn for 2005 to between 3.5 and 4 percent.

Total revenues are expected to be between $875 and $950 million, with our adjusted EBITDA between 235 and 207 million. Total capital expenditures for the year, including the Fresno build, are expected to be between $110 and $120 million.

At this time, I would like to turn the call back to Jim for the question-and-answer portion of today's conference call. Jim?

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

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Romeo Reyes, Jefferies & Company.

Romeo Reyes - *Jefferies & Company - Analyst*

I have a set of questions, actually. First, on the growth, we're trying to figure out what you've done differently for the fourth quarter, and what you expect to do differently in 2005 that would allow you to resume subscriber growth. In the third quarter, you had soft numbers as you guided to way back in September. But we're trying to figure out why you're confident that you can return to sort of the run rate where you were at beginning of the year.

First half, I guess you added about 75,000 subscribers. You were in a 150,000 run rate. But things kind of slowed down in the third quarter. So I was just wondering, trying to figure out could you give us a sense of how confident you are in your ability to return to that first half run rate for 2005. And what gives you confidence there?

And the second question is with respect to the ARPU. Based on the numbers that we have run here, it seems like you are your ARPU is going to go up very little in 2005 based on the guidance you're giving out. I don't know if you're trying to be conservative or maybe we're missing something here.

With respect to the ARPU, it seems to me like you would have some ability to raise prices. Metro PCS prices its product at $35 on the low end. You guys are at $30. I'm trying to figure out if you have the ability to raise prices to at least some of your customers that pay you $30. And then what sort of ARPU lift do you see from that as you roll out BREW across your entire market? And then, any sort of up-selling initiatives (ph) (technical difficulty) you might have with your existing customers -- thanks.

Bill Freeman - *Leap Wireless International, Inc. - CEO & Director*

Thank you Romeo. Let's deal with the issue of growth first. And then we will delve down into the ARPU and the specific services that might cause some ARPU lift.

As we said in the formal portion of the call, we expect our growth to come from a result of our initiatives we have going on around product, customer service and customer retention kind of issues. Clearly with our business, if we're able to reduce the churn as we think we're going to be able to do, and hold on our customer base as I mentioned in the talk, every additional dollar of revenue from the existing customer and existing market is worth about 50 to 70 cents of operating margin going to the bottom line. So that is clearly the most efficient way to continue to grow our profitability. And we've designed initiatives to enable us to do just that.

On the product side, the things that we've talked about in the call this morning that Glenn has talked about and that I outlined are issues that we believe, coming from our customer survey data, tells us that we would have a stronger product offering going forward. And these things would help us to not only grow but retain customers.

We talked about the introduction of a prepaid offer. We think that that's going to be a significant opportunity for us in this space. And we will look at how the prepaid and our current existing offerings need to fit together and what's best from a customer standpoint -- from a customer mix standpoint, and roll that out in 2005.

It's really those 3 underlying issues -- the customer service issue, retention and our new products and services -- that we think are going to strengthen the offering that we have in the marketplace, that's going to allow us to achieve our growth targets as indicated by our guidance.

As far as data and lift from a BREW standpoint, we expect that there will be some lift from it, obviously. The real key for this business, as we have said before, is our basic service offerings. This is where our profitability and our business model really stand out. We're adding new products and services features and functionality, including looking at adding network expansion capability that you referred to as roaming, as ways to strengthen our product offering and allow our lines to be pulled through either to retain them or add new additional lines.

That's really where I said our financial results come from and what makes the model work. We expect incremental lift from these things we're talking about. But they're designed to pull through our core services.

Romeo Reyes - *Jefferies & Company - Analyst*

What about any sort of ability to raise prices? I go back and I look at the fact that you guys are probably -- your ARPU is probably $5 lower than Metro PCS's. And I think about the fact that you guys are giving your customers 1500 minutes a month -- unlimited, actually, about an average 1500 minutes. And they are paying only $36 or $37.

Do you have been ability to raise prices? It seems to me like if the customer is paying you $30, a $1 increase or a $1.50 increase per month probably won't be noticed very much. But it would have a pretty significant impact on your EBITDA and some of your cash-flow numbers here.

Bill Freeman - *Leap Wireless International, Inc. - CEO & Director*

Romeo, I think your analysis is right on. And as we look at the mix of the things we're talking about, including prepaid in '05, we are considering looking at what the appropriate price points ought to be for our services.

Operator

Tom Lee, J.P. Morgan.

Tom Lee - *J.P. Morgan - Analyst*

Congratulations, by the way. I thought the guidance is very, very solid. But I was really curious to talk to you a little bit more about some of like the structural issues in the wireless industry. And in particular, I was curious whether or not you thought your business model was being affected at all by either the push for family share plans by the other national providers, or by products like Virgin Mobile at the low end, or even like Liberty Wireless, which is supported by InPhonic.

And also curious -- because I think this is something that a lot of investors have thought about, was whether energy price spikes this year actually had any effect on your churn. So as we see that start to stabilize, whether or not you see actually better growth in (ph) net (ph) next year maybe -- thanks.

Bill Freeman - *Leap Wireless International, Inc. - CEO & Director*

Thank you. First, Tom, thank you for the kind comments leading off. We appreciate that. Let me say up front that we're fairly behind the guidance that we gave. We believe that that's the range now that looks appropriate for us to come in at for '05 and for our guidance for the rest of this year. And so I say, let that the sort of your guidepost as we go through this.

Structural issues in the industry -- you know, when you look at what we do in our markets, everything from the drive (ph) test that we do which shows we're typically number 1 or number 2 in quality in the markets we serve -- top 20 percent with our 100 percent all-digital CDMA network.

And also, when you look at the competitors in our space in our markets, one of the things we're looking at with respect to our re-branding re-messaging is making sure that we get out that message to our customers and reinforce the value that we bring, because if you look at what's going on in this space right now, there's lots of language and lots of noise and confusion about what unlimited really means or what the other carriers are trying to provide. But it really doesn't match up with the value that we bring to our customers.

So while you may look at it and say well, the family plans, is that going to have an impact on you, you have to know who our customer base is. Our core customer is in the under-served segment, value conscious. They find our service at unlimited at that price point to be very attractive. And we also offer our own types of MVP (ph) plans where you can get additional lines at a discount if that customer really needs a family type of plan.

But it's really at different customer from what the national carrier is looking at, from a credit standpoint and from a risk standpoint. So that is point number one.

You mentioned Virgin. If you look at Virgin and add in all of the different cost aspects that they have and rate charge aspects for a customer, it's a relatively fairly expensive service. And I would expect that if there is a competitive overlap with what we do in our markets as we roll out our prepaid service, we will be carried for that aspect of it as well.

The thing I would like to really stress here is that as we go through this process of re-introducing ourselves into our markets and reenergizing our brand, the job that we do in terms of making it clear to the customers the value they are getting from us is really what's going to be what's going to be the distinguishing point for our service.

Tom Lee - *J.P. Morgan - Analyst*

Great. And how about energy prices and some of those other sort of economic issues?

Bill Freeman - *Leap Wireless International, Inc. - CEO & Director*

Yes, we believe that as we stated earlier on, back in the early part of the quarter, and as Glenn mentioned in his discussion this morning, the biggest factor we think was the cash associated with the credit in '03, which was also cited by some of the major retailers as a sort of a cash boon to the customers back then. We think it drove what was an extraordinary quarter for us in '03.

And as we look at what happened also in this year, we think it's not unreasonable to think there was some impact as a result of the discretionary cash crunch and disposable cash crunch associated with things like energy prices.

But I think fundamentally, the issue was an extraordinary '03. And promotions and plans for '04 really were not that distinguishable from things that the other carriers were doing this year. So there was not a clear standout in what we were doing. And I think that led more to our performance in the third quarter, which was a little disappointing from our standpoint. But bottom line is, we're having a heck of a year.

Tom Lee - *J.P. Morgan - Analyst*

Got you. Well, congratulations guys.

Operator

Todd Weithemeier, Ceterre Research. (ph)

Todd Weithemeier - *Ceterre Research - Analyst*

Could you explain to us how the upgrade program works? Does it -- does the customer have to be -- sign any kind of a contract to get a new handset or anything like that?

Also, what were those onetime CCPU items that you mentioned? And then finally, did I hear correctly that -- did you say you have already applied for the NASDAQ listing, or that you expect to soon?

Bill Freeman - *Leap Wireless International, Inc. - CEO & Director*

Okay, Todd. Let us take that from the top. I would ask Glenn to talk about the handset issues.

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

Yes. Thank you for the question. Now relative to upgrade programs, what we do today is we qualify those people who are good customers from our perspective. And currently what they -- what we're looking at is that if they're a customer for over a year, we have them then qualify for a on the spot cash credit of $50. Or they can take advantage of a mail-in rebate for $100.

So essentially, we want wanted to ensure that we qualify them, that they are great customers for us. And then as a result, we are rewarding them for their loyalty.

Bill Freeman - *Leap Wireless International, Inc. - CEO & Director*

And far as the other 2 questions, there were 2 principal areas of onetime activity. One area was the FCC made a regulatory change late in the second quarter that impacted how 1-800 numbers and fees would be moved around. And that had an impact on us during the third quarter. And the second piece is we had some employee expenses that we aligned. And so it was those 2 principal areas.

NASDAQ timing -- what I said during the scripted portion was that we expect to, not that we have. So the application -- we expect that to occur during the fourth quarter.

Operator

Phil Cusik, Bear Stearns.

Phil Cusik - *Bear Stearns - Analyst*

Hey guys, Phil Cusik. I've got to say that you've addressed most of my questions, Bill, especially in your last comments. But I wonder if you could just address something. In the Company's last round in 2001 and 2002, they talked about or you talked about the number of markets that you owned that may be attractive as Cricket markets. And the number, I think, at the time was 27 out of the markets that you've owned.

I wonder if you can sort of update that. In terms of the markets you own today, I assume it's a lower number. Can you give us a bit of a round number in terms of what you might be interested in building out and how that might grow the Company going forward? Thank you.

Bill Freeman - *Leap Wireless International, Inc. - CEO & Director*

I'm going to ask Doug to take the first part of that, which deals with sort of the institutional memory. And then we can maybe talk about build-out strategies going forward.

Douglas Hutcheson

I don't recall specifically of the markets that we had at that point what we had committed to build. What we have said most recently and as a part of this conference call has 2 or 3 aspects to it. The first is that we intend -- to the degree we build markets, we intend them to be part of our clustering strategy. We find that we get better returns and performance out of that. And Fresno is the most illustrative of that.

And the second piece that we said is of the markets that we own right now, there is an active Spectrum market. And the company will evaluate those markets relative to the sale or other avenues that we have with them. And we have not announced the building of any other markets, both of what we own or otherwise beyond Fresno at this point.

Operator

Rick Printice, Raymond James.

Rick Printice - *Raymond James - Analyst*

I will follow on Phil's questions there. You mentioned that you're going to have some interest in Auction 58. Can you describe to us what would be interesting market you? Is it the clustering concept? Is it getting more Spectrum where you already have existing Spectrum? Are you feeling any pressure there or looking to go (technical difficulty) newer (ph) field (ph)? And then I will come in with a follow-up.

Bill Freeman - *Leap Wireless International, Inc. - CEO & Director*

Thanks, I appreciate your participation today. Very briefly, we are going to be pursuing the clustering strategy we talked about this morning, similar to what were doing and Fresno. I would think that to the extent there is opportunity to add additional Spectrum to an existing market, we would certainly have to look at that. But we have no need to do that at this point in time.

And as far as going out and doing pure greenfield builds, if the analysis would seem to be something that would tell us that's what we ought to be doing, then we would have to put that in the hopper and take a look at it and value that against other options for how we would want to build-out Spectrum. But as of right now, clustering is clearly our prime strategy.

Rick Printice - *Raymond James - Analyst*

That makes good sense. Now how about EV-DO? Any thoughts on looking at the next generation of wireless broadband and if it makes any sense for local loop broadband replacement, if you will?

Bill Freeman - *Leap Wireless International, Inc. - CEO & Director*

Yes, I think Glenn has been dealing with that in his role as the sort of chief technologist for us. I would ask him to respond, Glenn?

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

What we are doing is we do have a trial that we're going to be putting out in one of our markets very shortly here, to take a look at the potential for having that play very efficiently with our current infrastructure.

As you know, we are of course very focused on the cost side of things and want to understand whether a more broadband offering is consistent with the fairly efficient use of the Spectrum that we have in our markets, because we certainly don't want to drive a position where we're going to need more Spectrum. So we're very closely looking at that possibility. We believe that there might be some potential in markets such as smaller under-served markets where it might make sense. But it's just a very, very incipient trial that we're doing at this point.

Rick Printice - *Raymond James - Analyst*

Sure. Any early indication on kind of the prices?

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

None at this time. It's more the technical side that's doing anything.

Rick Printice - *Raymond James - Analyst*

And then on CPGA, any thoughts on where handset prices are going as you look to do more MMS type of stuff?

Bill Freeman - *Leap Wireless International, Inc. - CEO & Director*

Well --

Rick Printice - *Raymond James - Analyst*

I'm sorry, my battery is getting low, are you guys there?

Bill Freeman - *Leap Wireless International, Inc. - CEO & Director*

Yes, we can hear you. Thank you. Clearly, what we're seeing as a trend in the marketplace is the customer's desire to have more and more functionality in handsets. Caller features and functionality -- that's becoming the baseline anymore (ph).

We are continuing to look at our handset mix. Our sets are all color now. We will continue to add to functionality that will allow us to -- as Romeo indicated before, add the BREW services, data services, use our MMS platform, the picture messaging. Clearly have to have handsets that are capable of doing that and ones that our customers want and will cause them to not view that as a reason not to take our service.

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

One of the (technical difficulty) and continue to see trends on is that the customers are moving up the ladder as well. So as we're adding as we're adding new services in, we're having -- seeing some nice results that customers are naturally moving up to get the handsets that have those products and features on them as well, coupled with the fact that the suppliers on handsets are pretty motivated to also get the pricing on those handsets, continue to move that down or be efficient in that.

So at this point, we seem to have a set of pressures that will allow us to bring these businesses to market and be in line with the type of things that we see right now on pricing.

Bill Freeman - *Leap Wireless International, Inc. - CEO & Director*

Let me just add on that before we close that issue out. These things that we talked about are all anticipated and built into our guidance for '05.

Rick Printice - *Raymond James - Analyst*

Okay great. Good luck with that, guys.

Operator

Vlad Altanamov (ph), Greenlight Capital. Please proceed.

Vlad Altanamov - *Greenlight Capital - Analyst*

Two questions -- first question is on CapEx. I guess you've indicated that 2005 guidance is 110 to 120, and with 20 to 25 million being for Fresno. Can you go into components of it? Why is it at this level and what comprises it?

Bill Freeman - *Leap Wireless International, Inc. - CEO & Director*

I will start and Glenn will help. There's (sic) 3 components in our next year's capital. There is the Fresno piece which you identified in your question. There is the regular maintenance CapEx. And the third component on that is that related to the new net customers and the products and services that we need to bring those customers on board.

At the high end range, we're still pretty low percent of revenue down at the 13 percent. At the low end of that we're actually down just over 10 percent -- 10.5 percent. So we're being very disciplined in our capital spending. And it's broken into those 3 categories.

Vlad Altanamov - *Greenlight Capital - Analyst*

Right. So I guess my expectation about regular maintenance was on the order of maybe $40 million a year. So that would put gross CapEx at 40 to 60, call it.

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

We haven't been giving details on what the maintenance piece is. But it's roughly on the non-Fresno piece -- again, roughly about half. So I think your number of maybe in the range on the low side.

Vlad Altanamov - *Greenlight Capital - Analyst*

I see. And as far as gross CapEx, can you give a little bit more detail what exactly are you trying to do there?

Bill Freeman - *Leap Wireless International, Inc. - CEO & Director*

Growth for us represents some aspects of what we need to do to grow the systems or the capacity needed to support the sub growth that we have projected. So it would be through growth in the network for capacity reasons. There might be some incremental dollars representing increased footprint if we were to do that within our markets to cover those new areas of growth within existing markets. And also there's a component in there for growth in the platforms that we have on a centralized basis, such as SMS platforms, HLR platforms (ph) and that type of thing.

Vlad Altanamov - *Greenlight Capital - Analyst*

Right. And this is not -- the CapEx guidance is not inclusive of the Auction 58 licenses that can potentially be acquired, right, you're planning to get?

Bill Freeman - *Leap Wireless International, Inc. - CEO & Director*

That's correct. It's not inclusive.

Vlad Altanamov - *Greenlight Capital - Analyst*

Okay. All right. And then the second question that I have is related to the debt that you've raised and the cash on the balance sheet. (technical difficulty) So my understanding is you have $150 million revolver. And then you're going to get $57 million of net cash from the term loan after you pay down the existing debt. And on top of that, you have roughly 240 of carrying (ph) cash on the balance sheet.

So that all adds up to about $450 million of cash after all is said and done. And at the same time, the business itself is cash generated, and every quarter is positive free cash flow. So can you explain why you need so much cash?

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

Well, I think one piece is we wouldn't typically count the revolver as cash. Businesses, normally, of our nature would have a revolver in place. I think that's a prudent financial move for generating future flexibility. And you would typically make arrangements to have revolvers at the time you would do senior secured financing. So I think to the degree the market is going to focus on that as a cash component, that would not be -- we would not consider that to be typical. We believe we're doing something that's prudent there and conservative.

So we also gave guidance on Fresno and the costs associated with that. So from uses of cash, we outlined one use of cash that would be there. And we continue to believe, based on the results we're seeing, that to the degree there is reasonably priced property that is supporting the cost or (ph) strategy, it's a value enhancer for our shareholders.

The Company is -- we're looking at all the alternatives to utilize the cash, including returning it across all places in the capital structure as and when it's appropriate.

Vlad Altanamov - *Greenlight Capital - Analyst*

I see. So the return of cash to the shareholders that you alluded to, when you think that might happen? Or if -- on alternative, if that's not going to happen, then if I exclude revolver from my estimate, would it be true to say that $300 million is the kind of number you're thinking of spending on (technical difficulty) and associated CapEx with it?

Bill Freeman - *Leap Wireless International, Inc. - CEO & Director*

I wouldn't draw that conclusion. And so at this point, the Company is not giving any information beyond utilization of that cash rather than Fresno at this point.

Vlad Altanamov - *Greenlight Capital - Analyst*

All right, great. Thanks for taking the call guys.

Operator

Ethan Schwartz, CRT Capital Group.

Ethan Schwartz - *CRT Capital Group - Analyst*

A few questions just to follow up along some things. Can you give us any better indication of what your models are for build-outs such as Fresno? In other words, the ultimate cost maintenance CapEx going forward, and then what you're expecting as far as penetration rates and cash margins and so forth -- just so that we can kind of model them as they come in?

Bill Freeman - *Leap Wireless International, Inc. - CEO & Director*

Typically, we've given the build-out from a CapEx standpoint. Typically, we don't go into specific penetration rates and in given markets. That is a competitive piece of information. We have every reason to believe that the addition of Fresno is going to create some lift in Modesto, Merced and Visalia, and that the combination of the 4 markets put together is going to be better than the sum of its individual parts.

And as far as going forward, you know that would be a forward-looking look at what we think maintenance CapEx would be in a particular market (ph) (technical difficulty) we haven't even built out yet. So I think that's purely speculative.

Ethan Schwartz - *CRT Capital Group - Analyst*

Okay. And then, well I expect you're going to give me the same answer. But for the Company as a whole for your existing market, is there a way to kind of boil down to your target customer base -- the under 35 sub prime and so forth, and try to get (technical difficulty) what percentage of that base you feel you have penetrated so far, and what may still be achievable for you?

Bill Freeman - *Leap Wireless International, Inc. - CEO & Director*

Let me answer that this way. We have, obviously, like any business, a range of success in terms of our markets and how we penetrate those individual markets. But there's no reason to believe that in our markets we can't achieve penetration rates that would demonstrate the higher end levels we have in certain markets. We've achieved it in some markets. We should be able to go after it and get it and other markets.

So, we think that there's headroom in all of our existing markets, and headroom specifically in this underserved segment. I don't think you need any more proof than that; all the studies that have been done are showing that for example in the prepaid space, some $6.5 billion of additional revenue is going to go into that space between now and 2007.

That would tell me that that core customer base -- the underserved, cash conscious value-conscious segment is strong and in fact is going to probably be the strongest growing segment in wireless. And I'm happy we happen to be in this space right now and be able to take advantage of that.

Ethan Schwartz - *CRT Capital Group - Analyst*

Okay. And then as far as Spectrum, what do you consider your sort of minimum and maximum amounts of Spectrum and sort of an average market that you need to keep? Is it 15 MHz -- much more than you need? Do you need to keep much more than that?

Bill Freeman - *Leap Wireless International, Inc. - CEO & Director*

I think we've got -- we're doing very well in our markets with 10 meg and we've got some at 15. And you know Fresno is coming in at 30. But I will let Glenn get into more specifics around that. But we're serving our customers pretty well with additional capacity (technical difficulty) and give us the growth room in our current business model at our current Spectrum levels. But Glenn, do you want to add anything?

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

Yes. Even in our very largest markets, we have quite a bit of headroom, even with 10 MHz which gives us 3 carriers' worth of capacity there. So we're finding that we're nowhere near bumping up into the 3 carrier level across the majority of the sell side CID's (ph) in markets like Phoenix and Denver.

So we believe that that shows the efficiency of the technology as well as our business model. And we're very comfortable with that. If we were to go into any higher use areas like broadband (technical difficulty) EV-DO (ph), that might change. But we're not poised yet to make that jump.

Ethan Schwartz - *CRT Capital Group - Analyst*

And then finally on the tax issue, do you have a sense yet whether you're going to have to pay anything related to taxes over the next several years in terms of cash? I know your reported tax rate may float around a bit. But do you think there'll actually be cash out the door for taxes?

Douglas Hutcheson

Dean Lavise (ph) is here as well. But at this point, we think we have substantial NOL. And we think those NOL's, subject to us continuing to do our analysis and investigation, should provide a substantial amount of relief on taxes into the foreseeable future. And Dean, do you want to --?

Dean Lavise - *Leap Wireless International, Inc. - VP & Treasurer*

Just something -- we've said that we expect at least $70 million available to offset income. The key question that comes out of that really is income. I don't think we are in a position right now to guide towards what our net income position is going forward.

But then the other component is to make sure that the NOLs are in the right jurisdiction. There are federal and NOLs as well as published (ph). There are some state NOLs as well, and whether we're in the income tax position in individual states could vary as well.

Operator

James Shannock, Jewel Investments. (ph)

James Shannock - *Jewel Investments - Analyst*

Regarding the number of POPs the Company has, could you just refresh us on that, or refresh me?

Bill Freeman - *Leap Wireless International, Inc. - CEO & Director*

We can barely hear you James. Could you speak up a little bit please?

James Shannock - *Jewel Investments - Analyst*

I'm sorry, how many POPs does the Company have now?

Bill Freeman - *Leap Wireless International, Inc. - CEO & Director*

We have just about just under 26 million covered POPs.

James Shannock - *Jewel Investments - Analyst*

Define covered as opposed to just POPs.

Bill Freeman - *Leap Wireless International, Inc. - CEO & Director*

Customers that are within our service area.

James Shannock - *Jewel Investments - Analyst*

Okay. And how many are you actually -- how many are in markets that your actually up and running in?

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

I think the first part of your question was what are the total number of Spectrum POPs we have, and we had 53 million licensed POPs. And that will be in our 10-Q. I believe of that 53, roughly 30 -- mid-30s of those licenses are operating licenses. And the moneymaking part of that is the covered part that Bill answered. And that's about 26.

James Shannock - *Jewel Investments - Analyst*

I got it. The does that imply that the difference between 26 and 35 are markets that you could get into without, I don't know, more impediments on the balance of those POPs?

I guess what I'm trying to figure out is what is -- if you were to build out all of your markets, how many potential customers would you have on the one hand? And on the other hand, what is the situation today? Is it 26 equals -- you have another 100 percent to go if you were to build them out? Or is it 26 compared to 35? Or how do you think about the overall penetration of your potential markets?

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

We think what was interesting -- when we released the Fresno guidance --and we want to point you back to -- and it's a validation of some of the things like clustering make sense for us. We typically cover about two-thirds of the POPs in the licensed market -- (technical difficulty) of licensed POPs turnover (ph) to be covered POPs.

And when we did the clustering announcements on Fresno, what we ended up with that is we expect we're going to cover at or slightly above the Fresno licensed POPs. And that's because we're able to go grab some valuable coverage out of the adjacent markets that we believe will be value enhancing.

We can't give you an exact answer, other than to the degree we can be prudent and reasonable in implementing this cluster strategy, what the outcome of that is.

But it generally appears to us that it's a fairly efficient way to strengthen the financial performance of the existing markets, and do it in a pretty cost-effective way; and for the markets that we would put in this strategy, get pretty high efficiency out of the licensed POPs turned into covered POPs. And we will update -- we need to get on with whatever makes sense there. And we will update you as we get results from that.

James Shannock - *Jewel Investments - Analyst*

Yes. Thank you. Let me just ask it this way, perhaps. If you were to hold your penetration and build out the rest of your markets, the 1.5 million customers, roughly, that you have today would then turn into how many customers? Would it be 26 on 53, so you'd roughly have another 3 million customers at this level of penetration? Or maybe you can help me there?

Bill Freeman - *Leap Wireless International, Inc. - CEO & Director*

That's not typically what we would do. We think we've covered the efficient POPs in any one license right now that meets the cost performance criteria that we have. So I don't think that we would look at it or be in a position to look at taking the covered POPs that we have and pushing them up inside our existing license POPs that way.

What we would expect to do is, again, do it more in the light of a Fresno clustering strategy with Merced, Modesto, and Visalia.

James Shannock - *Jewel Investments - Analyst*

Also, in terms of the distribution of penetration within your markets that you now operate in, can you amplify on that a little bit? I know you don't want to mention the exact amounts. But are the -- are all of the older markets at the same level? Are the newer markets lower or some newer markets are higher? Are the variances very wide? I wonder if you could add a little bit to that question.

Bill Freeman - *Leap Wireless International, Inc. - CEO & Director*

Actually, the answer is kind of yes. We see -- there's no correlation to age of market. We see different penetration levels. We have markets that are in double digits. We have markets that are in single digits, obviously. It really depends upon what the customer demographic in the segment is in that market -- what our distribution channels look like direct versus indirect; where our equipment travel times are, for example, to get to our locations that are in those markets.

All of those things are a factor; the economic situation in the town, unemployment, all kinds of issues drive into what makes really good markets for us. So it's really hard to pin a model down for 39 markets and say this is the cookie cutter that works. The fact is that we have strength in the fact that we have the 39 markets. And we intend to take advantage of that by leveraging the additional and unique capabilities of each of the markets.

James Shannock - *Jewel Investments - Analyst*

And if you're successful in that regard, in a very general way, would -- could you have the same market growth that would get to 50 percent more customers over a long period of time, 10 percent, 20 percent? What is kind of a sense that if you maximize your marketing opportunities and operating opportunities from your existing markets, you would run what kind of same market growth -- again, over a long 5-year, 10-year period?

Bill Freeman - *Leap Wireless International, Inc. - CEO & Director*

That's -- anything that I tell you will be crystal balling around that answer. Now the best I can tell you is we put our '05 guidance out. And we think that we're executing well in 2005, that we're going to hit those targets.

James Shannock - *Jewel Investments - Analyst*

That looks like about a 10 percent same market growth if I have it correctly. I'm not sure where Fresno fits in there. But it's not more than that. Is that (multiple speakers)

Bill Freeman - *Leap Wireless International, Inc. - CEO & Director*

That would be fine with me.

James Shannock - *Jewel Investments - Analyst*

Sure.

Bill Freeman - *Leap Wireless International, Inc. - CEO & Director*

Yes, that's -- you know that's -- that would be wonderful. I mean, if we hit those targets and drive that and that means that the product mix and the re-messaging of the brand, and the things we're putting in place to sort of shore up areas where customers are telling us they would like to have features and functionality like roaming, for example, are going to be working.

James Shannock - *Jewel Investments - Analyst*

I guess -- is next year kind of the low hanging fruit? And then it's harder to see how you go beyond that? Or is it that you feel like you have many years of sort of same market growth as you improve your deal?

Bill Freeman - *Leap Wireless International, Inc. - CEO & Director*

I do not think '05 is our apex by any means. But let's get through '05 first.

James Shannock - *Jewel Investments - Analyst*

Then just finally, given your forecast, it seems like you are going to have a fair amount of free cash-flow. Is that what -- does it flow through as you guys do the arithmetic? Can you say hey, we're going to have more money in the bank next year at this time than we have now by a pretty substantial amount? I mean excluding acquisitions and so forth, but does it really translate into free cash-flow as a practical matter? Or is there something between the cup and the lip that we're missing here?

Bill Freeman - *Leap Wireless International, Inc. - CEO & Director*

No. Let's hope that the lip and the cup meet together.

James Shannock - *Jewel Investments - Analyst*

Okay. And just finally on state NOLs, could you quantify that roughly speaking?

Douglas Hutcheson

Not at this time. We will look to give more information as we become more complete in our analysis there.

James Shannock - *Jewel Investments - Analyst*

Very well. Thank you very much.

Operator

Jerry Madigan, J.P. Morgan. (ph)

Jerry Madigan - *J.P. Morgan - Analyst*

Good results and thank you for the appropriate guidance. Have you guys finalized your management option program?

Bill Freeman - *Leap Wireless International, Inc. - CEO & Director*

As we said up front in sort of the structured part of the call, that the guidance -- excuse me, that the LFIP (ph) plan for management -- the Board has authorized the comp committee to finalize a plan. We expect to get it finalized and documented. And as soon as it is, we will file it appropriately with the SEC and make the announcement.

Operator

Ladies and gentlemen, this concludes the Q&A portion of today's call. I will turn the call back to Mr. Freeman for closing remarks.

Bill Freeman - *Leap Wireless International, Inc. - CEO & Director*

Thank you very much. And I want thank you all again very much for participating in the call today. As you have heard, the results we've reported for the third quarter reflect very solid financial underpinnings for our business. As you look at our year-over-year performance, our revenue is up, our costs are down, our EBITDA and free cash-flow has improved and our balance sheet is significantly stronger.

As I said earlier, 2004 is a milestone year for the Company, a year that has seen us emerge from restructuring as a new and a vibrant business well positioned to take advantage of the opportunities we see before us. I hope you've come away from today's call with a better understanding of how we're shaping our future and the great strides were making in pursuit of our vision to be a driving force in the telecommunications industry.

On behalf of the employees who have worked so very hard during this restructuring process to deliver the results that we're giving you today, and will continue to work very hard in the future, the officers and directors of Leap, we thank you both for your interest and for your continued support. We look forward to talking to you again when we release our results again for the fourth quarter.

If you have any further questions about our results for this past quarter, or our strategic plans for the future, please contact Jim Seines, our Director of Investor Relations. Jim can be reached at 858-882-6084. Thank you all very much.

Operator

Thank you for your participation in today's conference. This concludes the presentation. You may now disconnect. Have a great day.

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