

FINAL TRANSCRIPT

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LEAP - Q2 2008 Leap Wireless International Earnings Conference Call

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PRESENTATION

Operator

Good day, ladies and gentlemen. And welcome to the second quarter 2008 Leap Wireless International earnings conference call. My name is Katina and I will be your for forum leader today. We will conduct a question-and-answer session towards the end of this conference. (OPERATOR INSTRUCTIONS) As a reminder, this call is being recorded for replay purposes.

I would now like to turn the presentation over to our host for today's call, Ms. Amy Wakeham, Director of Investor Relations. Please proceed.

Amy Wakeham - *Leap Wireless International Inc. - Director of IR*

Thank you, Katina. Good morning. Welcome to Leap's second quarter 2008 conference call. This call is being recorded and will be available for playback in the United States through the close of business on August 19th 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 56923116. This conference call with the accompanying presentation is also being webcast live and will be available for replay on the Investor Relations section of our web site at investor.leapwireless.com shortly after the completion of our live call.

Joining me on the call today to discuss our second quarter results are; Doug Hutcheson, our President and Chief Executive Officer; Al Moschner, our Executive Vice President and Chief Operating Officer; and Walter Berger, our Executive Vice President and Chief Financial Officer. Following our prepared remarks, Katina will come back on the line with instructions for the question-and-answer portion of the call. Glenn Umetsu, our Executive Vice President and Chief Technology Officer, will join Doug, Al and Walter for the question-and-answer session.

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Turning to slide three, the results and data we discuss today including customer information, reflects a consolidated result of Leap, it's subsidiaries, and its non-controlled joint venture, LCW Wireless, and Denali spectrum, LLC for the periods indicated. As well as the results and data of Hargray Wireless, which we acquired in the second quarter of 2008. Also as used in today's conference call and accompanying presentation, the term "New initiatives" refers to the Company's new market launch activity and its Mobile Broadband offering.

The term "Existing business" refers to the Company's markets and operation and associated services in those markets as of December 31st, 2007. During our call today, we will discuss some non-GAAP financial measures. For a GAAP reconciliation of non-GAAP financial measures, I would like to refer you to the notes to the financial statements contained in today's earnings release and also to the financial reports page of the Investor Relations section of Leap's website at investors.leapwireless.com.

Turning to our forward-statement slide, I would like to remind you that statements made today that are not historical in nature, including statements about future events and performance, such as our plans to offer services to additional covered spots and expectations of future growths, spending, results of operation and customer penetration are forward-looking statements. Our actual results could differ materially from those stated or implied by such forward-looking statements.

Factors that could cause actual results to differ from our forward-looking statements are detailed in the section entitled "Risk factors." Included in our annual report on form 10-K for the year ended December 31st, 2007, and in our other publicly filed reports, including our Form 10-Q for the quarter ended June 30th, 2008, which we plan to file shortly. For anyone listening to a taped or webcast replay, or viewing a written transcript of our first quarter, excuse me, -- our second quarter call, please note that all information presented is current only as of today's date, August 5th, 2008. The Company disclaims any duty or obligation to update any forward-looking information, whether as a result of new information, future events or otherwise.

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

Doug Hutcheson - *Leap Wireless International Inc. - Pres & CEO*

Thanks, Amy. And thanks to all of you for joining us this morning.

Three years ago we established a goal to double the size of our business. We're pleased to share with you our continuing success in achieving this goal. In addition, during this time period, we've also assembled the capability to double the size of our business yet again. Today we'll outline our progress and plans to double this business once again. As we look at covered POPs over the last three years, we have added nearly 35 million new covered POPs since the second quarter of 2005. An increase of 130% and well on our way to potentially 100 million total covered POPs.

Also, we've introduced our Mobile Broadband product as of the end of the quarter to 23 million potential subscribers on the back of our success and the upgraded networks that we have developed over this time period. Lastly, we added nearly 1.7 net new customers, an increase of 104% from our Voice Mobile, Broadband and recent acquisitions. This results in a three-year customer CAGR of 27%. So even as we have grown, we have been improving our margins and our existing business and are well on the way to demonstrating success with our new initiatives. The quarterly service revenue growth over three years has been \$225 million, an increase of 117%.

In addition, we're now pleased to begin reporting on the service revenues of both our expansion markets and our Broadband initiatives, which during the quarter added an additional \$10 million. Our operating income in our existing business was strong, offset by the \$48 million negative OBIDA investment associated with our new initiatives. OBIDA growth in our existing business increased by nearly \$80 million, an increase of over 100%. Existing business margins increased to 38%, showing the continuing success we are achieving in increasing our operating leverage.

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The new initiative spend lays the foundation for our next doubling over the coming years and today we'll share our plans and our progress. Al, our recently named COO, will discuss our operating performance for the second quarter. With this call, we'd like to welcome Walter Berger, who joined the Company during second quarter as our CFO and will discuss our financial results. After I return to discuss our future growth plans, we'll have a Q&A session where Glenn Umetsu, our CTO will also join us.

Al?

Al Moschner - *Leap Wireless International Inc. - COO*

Thanks, Doug, and good morning.

Overall, we are pleased with net subscriber performance for the quarter achieving 171,000, or a 29% year-over-year increase. Performance in our existing business was consistent with seasonality, and the maturing of markets launched in 2007 resulting in 44,000 new net subscribers. We also saw strong customer acceptance in our expansion markets, resulting in 116,000 net new subscribers. In fact, initial AWS market performance exceeded that of Auction 58's initial performance. Demonstrating the effectiveness of launching markets with high level market level scores and with larger footprints.

Also, we achieved a stronger than anticipated Broadband success, adding 11,000 new Broadband customers ending the period with 14,000 subscribers, or a 40% increase above our guidance of last quarter. We expect the second half of '08 to continue this customer growth. Our existing business will reflect seasonal trends with early results of new growth programs, primarily in distribution, and we're seeing a stronger than anticipated July performance activity. We expect our expansion markets to continue their strength and further expansion of our broadband initiative as we plan to expand to more markets over time.

However, as always, customer activity may be affected by gas prices, tax rebates and other macro economic conditions. Overall churn performance was as expected with total Company churn at 3.8%. In our existing business, churn performed at 3.9%, compared to 4.3% in the second quarter of '07. There are three factors that contributed to this result. The tenure effects of pre 2008 launch activity was abated as anticipated. Year-over-year upgrade activity, that pressure is normalized, in fact, decreased in the quarter.

And we are experiencing the expected benefits from our footprint expansion, which we have completed over the last 12 months. However, we did experience greater volatility in the quarter, in both our deactivations and reactivations which generally offset each other in the period. We'll talk more about that as it did affect some of our ARPU performance. As expected, early churn performance in new markets reduced total Company churn by 0.1%. These new markets, as expected, will follow the previous new market tenure experience in upcoming quarters whereas we experienced positive effects from the early quarters and additional churn over normal periods, as the tenure of these markets mature.

We expect the second half churn to reflect our seasonal trends similar to the 2005/2006 curves but early second half '08 strength could be impacted by macro economic factors as seen in the second quarter. Second quarter consolidated ARPU was \$43.97, and our existing business we delivered ARPU of \$44.18. We launched some very attractive new rate plans this last quarter providing a value proposition over a range of price points. The mix of these plans performed as expected.

But as I mentioned, we did experience higher deactivation activity, offset by an increase in reactivations. This temporary effect did put pressure on ARPU, both in deactivations causing reduced revenues and reactivations - - reduced revenues caused by timing of payment of service. When looking at our new initiatives, we expect our ARPU, for those to be affected in the following ways. Our expansion markets are tracking as expected. Hargray ARPU, we expect to begin to increase in Q4 as integration proceeds.

Broadband build ARPU is performing as expected but we will be lower than Voice and we expect in the mid to high 30's. Overall, we expect 3Q '08 ARPU for Cricket Voice services to be flat or slightly higher to 2008. And fully expect that to be - - continue to

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be within our Voice ARPU objective. While we expect some dilution from Mobile Broadband service. With the launch of our new rate plans in the second quarter, we continue to be the value leader in the industry, as shown versus our competitors. Offering the only real unlimited that saves customers up to \$600 a year by offering more value at a lower price. CPGA performance for the second quarter was \$205, reflecting investments for growth in future periods.

This comes in two forms, first; in the second quarter of '08, new initiative spend of \$12 reflects costs associated with Peak 2008 launch costs related to new market expansion and the launch of nearly 15 million new Broadband covered POPs. Secondly, we saw a year-over-year increase in existing business of CPGA of \$11. That was the result of \$19 of lower subsidy costs offset by an increase in sales and marketing of \$26 in higher store costs as we added 12 new Company stores as disclosed in Q1 to support our footprint expansion. Adjusted for these two investment efforts, CPGA would have been comparable to '07 levels.

As we look at the second half of '08, CPGA will reflect our normal seasonal rhythms in our existing business, higher prelaunch and initial costs related to new market expansion and increasing launch costs related to further expansion of our Broadband initiative. CCU performance continues as expected with the second quarter achieving a result of \$21.01. Our existing business CCU of \$18.92 also performed as expected.

And from a year-over-year perspective, it declined adjusted for a material one-time effect. It was \$1.74, and this indicated the benefits of scale, which outweighed the costs of associated increase footprint. New initiative spend of \$2.09 per user reflects costs associated with new markets and Mobile Broadband. In the second half of '08, we expect consolidated CCU to remain in the low \$20 range, reflected continuing expansion of our business, provide scaling to offset a cost of new initiatives.

Finally, the net result of the metrics just reviewed resulted in our existing calculated-per-user contribution -- our existing markets I should say, a year-over-year increase of 9% or \$17.72. Demonstrating the Company's ability to grow while maintaining attractive customer performance metrics. Markets that are two years and older typically have contributed greater than \$20 of CCPU, while less mature markets continue to increase their contribution. On a consolidated basis, including \$2.55 of new initiative costs our calculated contribution per user was \$15.52.

Now I would like to turn the call over to Walter.

Walter Berger - *Leap Wireless International Inc. - EVP, CFO*

Al, thanks. Good morning.

If you turn to slide 17, one could see that with the exception of the third quarter of 2007, which is essentially a lower or the generating quarter, we've continued to grow total service revenues and existing business, adjusted OBIDA for essentially every quarter since the second quarter of 2007. Service revenues in the second quarter of 2008 have increased by about \$70 million over the second quarter to 2007, or approximately 20%, which includes a \$60 million increase in existing business service revenues and approximately \$10 million of service revenues contribution from our new initiatives.

The impact in our consolidated adjusted OBIDA results for the quarter is \$48 million in net spending for new initiatives. This principally reflects our investments associated with the expansion of our business through new market launches and our continued rollout of Cricket Wireless Internet service. Excluding costs associated with new initiatives and excluding the one-time \$6 million gain recorded in the second quarter of 2007, our existing business adjusted OBIDA increased over \$51 million year-over-year and our existing business adjusted OBIDA margins continue to improve. Increasing year-over-year by eight percentage points, or approximately 38% for the second quarter.

As discussed previously by Doug, while adjusted OBIDA margins have declined on a consolidated basis, as a result of our investment in new initiatives, the margins of our existing business has continued to improve. Moving to slide 18. We will provide further details behind the improvements in our existing business operating margins. Cost of service margins within our existing

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business have improved year-over-year. The margin associated with the product portion of cost of service has improved year-over-year due to improvement in rates, long distance calling costs, and other rate reductions.

The margin for non-product portion of the cost of service for our existing business has remained essentially flat with the prior year period. Even while absorbing the costs associated with expansion of our footprint within our existing business. The second quarter of 2007 also included a one-time gain related to the renegotiation of lease contracts that reduced our cost of service by approximately \$6.1 million. The year-over-year improvement in our net equipment subsidy reflects a couple of things. Including the reintroduction of activation fees for new customers which were not charged during the prior year period. And the launch of Cricket EZ Handset in the first quarter of this year. A low-cost handset, which provides competitive pricing opportunities without negatively impacting subsidy.

The year-over-year improvement in sales and marketing margin in existing markets represents the benefit of scale on the expense line that's approximately two-thirds fixed. During the quarter we saw improvements in customer care in billing margins reflecting expenses essentially flat year-over-year, even with nearly 500,000 increase in average customers in the existing markets. Overall, the Company is achieving the margin improvements expected within the existing business and believe we will continue to see improvements in our operating margins as a result both further penetration of our existing markets and our ongoing cost initiatives.

Historically, we have demonstrated an ability to deliver adjusted OBIDA margins that achieve 40% over time. And the second quarter results of our existing business indicate that we are well on our way to deliver similar margins within our existing business as we continue to grow and gain additional scale. This increasing scale is offset by the incremental 75% contribution margin the business delivered as measured by year-over-year in change in service revenues and existing business adjusted OBIDA.

Turning to slide 19. As part of our ongoing strategy, we continue to invest in new initiatives and in the second quarter of 2008, we absorbed approximately \$48 million of negative adjusted OBIDA associated with our new initiatives which we expect will contribute to the future growth and profitability of our business. Included in the net initiative spending for the quarter was approximately \$10 million of negative OBIDA associated with our Broadband initiative.

The negative burn included approximately \$6 million of fixed costs per quarter which we shared with you last quarter, and an additional \$3.5 million of variable costs associated with the approximately \$23 million covered POPs we launched during the second quarter of 2008, as well as prelaunch spending for additional POPs we expect to launch this year. For the quarter we also invested approximately \$38 million in expansion markets, including costs associated with our acquisition of Hargray. This includes both the costs associated with the approximately \$8.5 million cover POPs launched in the second quarter of 2008, and approximately \$8 million in free costs per POPs we expect to launch in the future.

Now turning to slide 20, please. Net loss for the second quarter of 2008, was \$26 million, compared to net income of \$10 million, or \$0.14 per diluted share in the second quarter of 2007. However, the second quarter of 2008 net loss per share includes proximately \$0.70 per share, of negative adjusted OBIDA associated with the Company's new initiatives that we previously discussed. In addition to the impact of costs associated with the Company's new initiatives, the primary factors contributed to a year-over-year change from net income to net loss were an \$8 million increase in net interest expense due to a decrease in interest income, due to the Company's change in its investment portfolio, primarily cash and treasuries and an increase in the Company's interest expense in the current period primarily related to \$350 million of high-yield bonds that were issued midway through the second quarter.

Another factor contributing to the increase of net loss was an \$8.5 million increase of income tax expense primarily reflecting the deferred tax of higher amortization in wireless licenses resulting in the change in tax rates for those licenses in the third quarter of 2007. As we discussed in the previous quarter. We expect to report - - we expect to continue to report income tax expense of approximately \$10 million for each quarter through 2008, despite the fact that we reported full valuation allowance in nearly all of our preferred taxes. Expenses associated with the minority interest and consolidated subsidiaries increased by

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\$2.5 million year-over-year, primarily reflecting increased -- with the redeemable equity held by certain investors in our joint ventures.

Turning to slide 21. As you know, the Company completed several significant capital market transactions in the second quarter which positioned the Company for continued growth and investments in new initiatives. These financings were achieved on favorable terms even as the overall credit markets have remained challenged. First; the Company successfully amended the senior secured credit agreement to align the existing agreement with our current operations and future growth plans.

We also completed two financings which we believe will provide the Company additional flexibility and funding for our current new initiatives, including the build out of our new Auction 66 markets, the continued expansion of our Mobile Broadband initiative, and further enhancement of the footprints within our existing business. Further details regarding these financings as well as the amendment to our credit facility can be found within our filings made with SEC following the closing of these transactions in late June. Moving to slide 22. Total cash on hand, including short-term investments at the end of the second quarter was approximately \$934 million, that's an increase of \$426 from our cash position at the end of the first quarter.

The increase is primarily due to the net proceeds from approximately \$536 million received as a result of financing activities completed during the second quarter, offset by the Company's usage of approximately \$229 million in cash earned in the quarter. Our current cash investments remain invested as disclosed in the first quarter conference call. In general, the Company invests cash with financial institutions and money market funds, short-term US treasury securities, obligation of US governmental agencies and other securities such as prime rates, short-term commercial paper and investment grade corporate income securities.

CapEx for the quarter was \$181 million, which includes capital expenditures in our existing business, and ongoing expenditures for the completion of the first phase of our footprint enhancement program. CapEx expenditures for the quarter also include CapEx related to the development of our expansion markets. For the second quarter, capitalized interest associated with the new market expansion was approximately \$13 million.

Looking ahead, we expect aggregate capital expenditures in our new market build activity to be approximately \$25 per covered POP, excluding capitalized interest, reflecting a \$1 reduction of our previously provided outlook. This amount represents required capital expenditures to support our new markets through the first year of operation and the reduction as a result of lower than anticipated site development expenses. After the first year of operation annual CapEx are expected to be in the mid-teens as a percentage to service revenue. Note that any capital investments associated with significant enhancement of the footprint within our existing business is not included in this ongoing capital expenditure.

Finally, in closing, the financial section of today's call, I would like to share and reiterate the Company's belief that we are sufficiently funded between our current cash position and our ability to generate cash from operating activities to meet the operating cash requirements from our current business operations and the expansion of our business through the launch of new markets to continue to expansion of our Mobile, Broadband service and the further enhancement of the foot print within our existing business.

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

Doug Hutcheson - Leap Wireless International Inc. - Pres & CEO

Thanks, Walter.

As we look at our opportunity to double the size of the business again, we have implemented three primary drivers to achieve that. We believe there's a series of programs in our existing business that will cover a little bit more detail that allow our 53 million covered POPs to see deeper penetration and as a result of that increased financial performance. Today I will share results

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with you on our new markets, the initial results and we believe those markets represent a higher relative growth potential and we're well on our way to seeing that. And then the expanding role of Mobile Broadband.

Turning to our networks, we have completed the 90% of the first phase of the network expansion that we communicated with you about a year ago, and that network expansion covers about 29 million total POPs. The remaining sites will roll out over the second half of this year, and perhaps some into next year but the bulk of the work on this is done. We also discussed last call the potential of additional activity in this area, and we do believe that further work will be done beginning in the second half of 2008.

The background on this work is a high correlation we see between customer penetration, and in building coverage and we have identified priority areas based on specific micro market quality factors and look forward to seeing the results of this in 2009 and beyond. These additional sites could represent up to an additional 600 sites. We anticipate the costs associated with those sites will be in the \$225,000 to \$250,000 range, and will affect 45 million of the existing 53 million covered POPs. These sites are expected to be completed by year end 2010. The net effect of this work we believe will increase penetration in the affected markets by 0.5 to 1.0% by the end of 2010.

Turning to improvements in the market level. We think we have -- significant ability to drive further growth. We are implementing marketing and distribution programs across 31 of our 53 million covered POPs. Those initiatives begin launching in the first half of 2009 and will roll out over the coming quarters. The drive behind those is further improvements in direct store operations, strengthening our indirect channel performance. When we have the factors lined up and increase in market level awareness, and then always dealing in trying to optimize our store location.

The expected effect of these initiatives is to increase penetration in the affected markets by 0.7, to 1.25% in the markets over the long term. We have mentioned that the Company has invested significant money in our networks to have them be the latest technology and we see the benefits of that occurring not only in our ability to provide services to our existing Voice customers, but also with our Mobile Broadband initiative.

We have one full-time EV-DO carrier across all of our markets and we built and all of our networks are connected to a data superhighway. We have invested \$165 million over the last three years to support this initiative and are now are beginning to see additional benefits as a result. Our new markets are all launched on a Rev-A basis, both the networks and the handsets and we expect to upgrade our existing business networks to Rev-A during 2009.

This network enables us to deliver a series of advanced options not only the recent announcement with a relationship with Fox interactive, but in addition other ARPU-enhancing features in the 2008. Such as the download of video clips, download of music tracks and other initiatives that will be available either bundled or on an a la carte basis. We do expect to look at a streaming upgrade in 2009. So how does all of this come together? What does it mean?

Well our markets two years and older have continued to historically penetrate at about 0.5% per year. We have leading markets that are well into the double digit market penetrations and those also continue to grow. The previous round of markets that we launched in 2006 and 2007 are tracking to penetration at the end of two years between 0.5 and 0.6%. When we look at organic growth and the new programs and their penetration impact on it, we believe our existing business will achieve between 8 and 9% in aggregate by year end 2010. This does not include any effects from our Mobile Broadband initiative.

Turning to the initial Auction 66 market launches, we have completed 8 million covered POPs in the second quarter. We're pleased to say these initial launches are at or ahead of our penetration expectations and currently performing ahead of our last Auction -- Auction 58 market launches. We believe the markets that we see validate that when we launch in the competitive situation, that it actually expands the pie. And you can see that when you look at the bottom of the chart, where we see in markets where we've had multiple low cost competitors, substantial penetration as a result of the market level awareness that's generated.

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We believe both our new Cricket only and the markets with multiple low-cost competitors will have attractive financial performance over time. In addition, these recent market launches validate our revised spending profiles that we outlined today. Walter mentioned the lower CapEx costs and today we also increased by \$1 our outlook for the OPEX burn associated with these markets. When you look at that on an aggregate cumulative investment.

Now as previously, the peak burn on a market-by-market basis will be slightly higher and we updated that number to \$7. We have substantial further opportunity in front of us. We expect to be able to launch up to 36 million POPs by the end of the first half of 2009 and up to 50 million POPs by year end 2010. These new markets provide us a substantial opportunity as we purchased those with low relative license costs and focused on markets that had attractive penetration potential. And as a result we believe we have a good IRR potential in front of us.

The team has made good progress on spectrum clearing, although some risks remain in some of the markets to continue to clear those but we believe as we look ahead we think we will have continued success. We will launch up to seven new Tri-Band Handsets by the end of 2008. We are continuing to work with our vendors on that and in addition, provided the revised CapEx buildout expectations we discussed with you.

Turning to the Wireless Internet Service, I think we are off to a strong start. Our product provides monthly access with have speeds comparable to DSL. For those customers that are new to Cricket, which represents about 60% of the customers, that has a \$40 cost and for those customers that have other Cricket services, the product is available at \$35. As we mentioned, we launched a Universal device, a USB device. It works in desk top and laptop computers and we have seen attractive uptake in our penetration as we had expected.

In addition, as a result of our initiative volumes and the volumes that we expect to generate in the second half of 2008, we believe we'll see substantial volume pricing levels achieved with this device in the first quarter of 2009 that will allow this business to continue to move ahead nicely. During the quarter, as Al mentioned, we added 11,000 customers, bringing our total customers to 14,000 against a 10,000 forecast. We achieved greater than anticipated volume not only in the original 13 million POPs that we outlined we were going to launch but got off to a strong support with the additional POPs that we were able to launch as well.

Current usage levels are expected to decline over time. We have programs that tell us that we expect that they'll come in line with what we anticipate, just as when we've launched other unlimited products. We have been able to manage those products over time to what we would like them to be.

Our OBIDA performance expectations have been advanced. Certainly a strong customer acceptance is driving us to move ahead more quickly and we expect a negative OBIDA burn with this program as a result of launching 60 million covered POPs by year end 2008 to peak in the second half of this year.

In addition, we expect this program will generate positive OBIDA contributions for the full year. So as we look at our market level outlook, you see the \$0.50 aggregate cost remains unchanged. Although I will remind you, the peak burn on a market-by-market basis just as you see on the build out of the new market will be higher. And the \$6 million fixed costs through the second half of 2009 will continue to run. Although the \$6 million is included in our positive contribution for the full year 2009.

Market level break even is projected within three full quarters after launch and we expect 100,000 customers by year end 2008. Within one year after market level launch, about half a point of penetration and customer profitability as measured by -- how we calculate the cash calculated contribution per user per month to be between \$10 and \$15 per month by year end 2009. We believe we're delivering a strong continuing growth story. We have delivered business results, our business has been resilient, making progress, even in uncertain times.

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We have seen attractive customer growth, and we continue to see improvements in our year-over-year financial performance. We have established a significant set of assets, our existing business strength, the brand awareness and customer experience that we deliver through our field personnel and our distribution partners. We have upgraded networks that are ready to bring new services to the -- to our customers and an attractive spectrum portfolio. Our growth opportunities are strong and they are attractive. The growth from our existing business, the doubling of the footprint and the expansion of our Mobile Broadband.

And in ending, the team has been assembled that can do this, not only a strong team of dedicated employees which I thank for their efforts but a management team that can deliver. As a result today the Company did update its three-year adjusted CAGR outlook, excluding Broadband and we anticipate that our CAGR be between 35 and 45%.

With that, I would like to return to the operator for the Q&A period.

Amy Wakeham - Leap Wireless International Inc. - Director of IR

Katina, can you come back on the line and start the Q&A portion of the call please.

QUESTIONS AND ANSWERS

Operator

Thank you. (OPERATOR INSTRUCTIONS) Your first question comes from the line of Romeo Reyes representing Jefferies. Please proceed.

Romeo Reyes - Jefferies - Analyst

Good morning.

Doug Hutcheson - Leap Wireless International Inc. - Pres & CEO

Good morning, Romeo.

Romeo Reyes - Jefferies - Analyst

Congratulations on beating the net add numbers by 50,000. In terms of the -- basically the churn with respect I think you mentioned by deact and react, can you please review that a little bit? I think, Al, you talked about ARPU being off a little bit react and deact. Can you please maybe -- (inaudible). And then secondly I think, Doug, you mentioned that Broadband subscribers are going to be about 100,000 by year end '08. Is that the right number?

Doug Hutcheson - Leap Wireless International Inc. - Pres & CEO

Al, do you want to --

Al Moschner - Leap Wireless International Inc. - COO

Sure. Romeo, good morning. Let me just, again, talk about the churn perspective. As I mentioned, we did see a very good result in churn, actually seeing, -- I think a 40 basis point improvement in our existing business. But we did have higher volatility and

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it came in two forms. We saw higher D, gross deactivations and the way churn is calculated is we have -- we start out with the gross deactivations in the quarter, and a net benefit against those gross deactivations are reactivations. People come back that have been on our service before, and they come back in several different ways. And fortunately, we saw the reactivation side of this greater than expected, generally offsetting the greater gross deactivations.

Unfortunately, both of those have a dampening effect on ARPU. Clearly as we have greater deactivations we don't collect revenue from those customers that leave the service. And in a reactivation sense, that service revenue is deferred or delayed in later periods and not in the month that we don't get full credit for that revenue in the month that the reactivation occurs. So with the volatility that we saw primarily at the end of the quarter, it tended to -- to reduce ARPUs to some degree.

Doug Hutcheson - *Leap Wireless International Inc. - Pres & CEO*

So we think --

Romeo Reyes - *Jefferies - Analyst*

When you go through -- what is the difference between deact and churn?

Doug Hutcheson - *Leap Wireless International Inc. - Pres & CEO*

Say that again, Romeo.

Romeo Reyes - *Jefferies - Analyst*

Would you mind going through the difference between a deact and a disconnect?

Doug Hutcheson - *Leap Wireless International Inc. - Pres & CEO*

There's no difference, a deact and a gross disconnect is the same thing.

Doug Hutcheson - *Leap Wireless International Inc. - Pres & CEO*

So churn is reported, as we've always says. There's no difference in how we report churn. Churn is reported net of deact and reactivations of the customer. Romeo, as far as the Broadband, our guidance is we expect approximately 100,000 Broadband customers by the end of this year based on our current trends. So I think what you heard was correct and we'll have launched that up to about 60 million covered POPs.

Romeo Reyes - *Jefferies - Analyst*

Is there a reason to expect that you wouldn't roll it out to the entire AWS or the 66 markets in 2009 and 2010?

Doug Hutcheson - *Leap Wireless International Inc. - Pres & CEO*

Well, we certainly have launched all of the current market launches have been launched with the Broadband product included. That's why you saw the breakout in the customer net additions that AI provided that we had good volume, about 5,000 of the 11,000 net customer additions came in the Auction 66 market. I don't know that we'll launch it on all the markets but certainly

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almost all of them. I think we'll generally want to make sure that we have adequate spectrum in all the markets before we put the product in place and there's a new markets where we have a little less spectrum and we may focus more on our Voice product there?

Romeo Reyes - *Jefferies - Analyst*

I realize this might be a little early, but do you have any data on sort of the stickiness of the two-product customers relative to the one-product customers?

Doug Hutcheson - *Leap Wireless International Inc. - Pres & CEO*

Which - - what was your customer breakout on that, Romeo?

Romeo Reyes - *Jefferies - Analyst*

No, just the relative stickiness or churn for the customers that take both Broadband and Voice, versus the customers that take Voice? I realize it's in the early days.

Doug Hutcheson - *Leap Wireless International Inc. - Pres & CEO*

I will say and it is early so I do want to flag that. Early for those people that are on the USB modems. The ones that were on the older modem, as we had expected, the profile is a little bit different. But for those people on the USB modem, the churn profile has been a little bit better than what we see on a Voice customer basis.

And we don't have enough time where they have both products with the USB modem to really start to get into the details of the stickiness of the two-product customers. So what we'll do is watch that and, hopefully, by either the next call or the call after that, we'll be able to provide you a little more color there.

Romeo Reyes - *Jefferies - Analyst*

Thank you.

Operator

Your next question comes from the line of Simon Flannery, representing Morgan Stanley. Please proceed.

Simon Flannery - *Morgan Stanley - Analyst*

Okay. Thanks very much. Good morning. If I could follow up on the Mobile Broadband. You did talk about some heavy usage that you were experiencing.

Have you got sort of the gigabyte caps and things like that, that might help you manage some of that. And what is it that makes you feel like that's going to come down. And I think - - could you also address the capacity utilization experience. How do you manage the heavy network traffic from this? Is the peak period different from the voice peak, for example. And I think maybe it was AI mentioned that July was tracking quite well. If you could give us a little bit more color on what has been happening here the last few weeks.

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Doug Hutcheson - *Leap Wireless International Inc. - Pres & CEO*

Sure. Let me break out what the -- every time -- if it's not every time, but it's pretty darn close when we've launched unlimited products, we see them follow a curve that tends towards having higher usage when you first get a hold of the product and then things come down over time and we have -- we are into our 10th, 11th, 12th product bundle like this. And we certainly see and expect that that will follow the same trend.

In addition to that, we'll continue to look we have some other programs that we have that we think we can manage that volume. So we see a normal curve that we're expecting to see and feel comfortable that we have the ability right now to manage that curve. I would tell you that we will keep our eye on it. I think we probably -- even if the usage would stay a little higher like we are seeing it, we still see this as a pretty profitable product. So I think we would tend towards looking at this issue not as go/no go -- but as a margin enhancement opportunity over time.

As far as the volume that we've had, remember that's why I flagged it. We have identified a separate carrier for this, and that carrier is inside our existing first ten megahertz of spectrum. We think for the guidance package that we have outlined at this point that we have more than adequate volume to absorb that. And if we have the pleasures of significant success on that -- we'll look at what else we do and have associated revenues and cash flows should we expand and add carriers on it. So I think we'll stay in a success-based mode.

Because it's on a separate carrier the way that it is, it can have its own usage pattern. So right now it's close to a similar usage pattern, as what we see on the rest of the business and I think given the way that we structured the network on it, I think we feel pretty comfortable on that. So the other piece is we have seen July has been, I think, a nice July. I think some of that is the effect of the programs that we have been run and all of us are waiting to see how much of that is the effect of the tax rebate.

So we have seen more strength than we typically see in July. That has equated into the front door volumes. It's also been a little bit of dampening with the volatility that we discussed on the ARPU. With that said, we will flag that that does not make a quarter.

We are just saying that the reason we believe the ARPU effect is likely mitigated is we have seen -- we've already seen some evidence of that, which is why we flagged that data. And then we'll look forward to watching the rest of the quarter come together but think that we are going to be all right on it.

Simon Flannery - *Morgan Stanley - Analyst*

Do you think gas prices and with the consumer is just much more price sensitive. And you are really seeing that benefit you in the market place as you have more opportunity to take share from people leaving the big four?

Doug Hutcheson - *Leap Wireless International Inc. - Pres & CEO*

Well, we'll see. Gas price is certainly, as we've said for several years, certainly affects us. And Al, in his section outlined that you come to our unlimited plans and it's \$600 a year in savings. So it has given us a chance to really highlight pretty clearly a flight to value opportunity for us.

It is, I think -- I can't say enough that I think our business is doing -- I'm pleased how our business is doing right now, certainly compared to the volatility that we discussed with you last year. At this point I think the business has done a nice job of absorbing that and advancing through that. We have to get through the rest of the year and move our way through it. But I think right now, we seem positioned that we will be able to continue to execute on our growth plans and comfortably see the rest of the business move ahead.

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Simon Flannery - Morgan Stanley - Analyst

Thanks, Doug.

Operator

The next question comes from the line of Scott Malat, representing Goldman Sachs. Please proceed.

Scott Malat - Goldman Sachs - Analyst

Good morning. On a quick modeling question. I just want to make sure I understand this. The existing business that you give in terms of statistics - - that includes all the markets up until the end of 2007 and when you compare it to a year ago, those are total all markets, not the ones that we are seeing through the end of 2006, is that's right?

Doug Hutcheson - Leap Wireless International Inc. - Pres & CEO

Yes, I think there were a few markets launched in 2007, that would be slightly increased to that.

Scott Malat - Goldman Sachs - Analyst

They were launched in the beginning of 2007, in terms of a year ago comparisons those are dilutive to those numbers.

Doug Hutcheson - Leap Wireless International Inc. - Pres & CEO

Dilutive or additive. We launched three markets in the second quarter of 2007 that increased our total covered POPs, I believe, 3 or 4 million covered POPs. And we have the effects of the footprint expansion initiatives that we completed last year that have had the effect of increasing the covered POP number slightly. But more or less, we believe that generally comparable to the - - to, where we are at in 2006, if you understand or look at those two things.

Scott Malat - Goldman Sachs - Analyst

I think that's really helpful. Thanks. And just on the rate plan, you did mention that they performed as expected. Can you help us understand what that means just in terms of - - you added some features to the \$40 plan.

I think you added some features to the \$45 plan and just understanding what the typical customers are doing. Are the sign-ups at lower levels? Are they at higher levels? And are existing customers changing their plan? How does that work through the quarter?

Al Moschner - Leap Wireless International Inc. - COO

Scott, let me deal with that. Yes, in fact, what we did is maintain the price points that we had in the market place, but we wanted to increase the value delivered at those price points. And we were reacting to several factors. We look at competitive situations by market and, in fact, we introduced two different structures.

We have - - a lead plan structure and a standard plan structure depending on the competitive nature of the market place. We will either launch one or the other rate plan structure. Within those structures, when we talk about - - performing as expected,

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the mix that we see, we typically go into these projecting what we believe the mix will be. That's pretty much what these markets performed on average, and that's how we look at it.

And I think that was the commentary that we made. We typically don't share specific mix numbers. But generally, the markets performed as we would have expected and as we had planned for them, based on the value equation that we created.

Doug Hutcheson - *Leap Wireless International Inc. - Pres & CEO*

Yeah, and we continue to see, as we have disclosed previously, that -- our volume continues to be much stronger at our higher price points. So when we said they perform as expected, we're not capturing the volume by a strong downward migration on a rate plan.

We do have our entry level rate plans as we discussed with the people a year ago, because it's important for us to have that entry level price point. It really sets up the framework for us to defend the bottom end of our rate plan. But if you were going to look at our rate plan uptake, first quarter versus second quarter, you would actually see that our average rate plan uptake, our average billed ARPU, went up as a result of our new rate plan uptake, not down. So as we said on the slide, our rate plan uptake has been as expected and so we are feeling like we are moving ahead fine on that.

Scott Malat - *Goldman Sachs - Analyst*

Okay. Thanks. That helps. Just last quickly -- just in terms of how important the EZ Handset -- or just a lower end handset that it seems in this macro environment, it's a lot to ask someone to spend over \$100 for a new phone. How much has that been a part of helping your gross additions in this quarter?

Al Moschner - *Leap Wireless International Inc. - COO*

I think Scottie, I think it's been very important and, in fact, it does two things. It provides a lower price point with good functionality. And secondly, as we reported it also helped to reduce our subsidy costs. It helps both the business and the consumer with how that performed and as we had mentioned on previous calls, we continue to be very aggressive in our lineup, both now in AWS, and in our non-AWS markets to continue to drive the -- not only the cost of our handsets down, but passing that on to the consumer because your perspective is correct. As we continue to improve that parameter, we see improvement in performance.

Doug Hutcheson - *Leap Wireless International Inc. - Pres & CEO*

If you look at the rate plan uptake and then if you review the details that we shared on CPGA, you take out the new initiatives and as we talked in the first quarter that we had some stores that we were going to roll out during the second quarter, the \$7 or so associated with that. What you see is the metrics are basically, we're seeing the growth that we're seeing pretty much on top of our typical acquisition profile. Meaning we are seeing not a material difference in CPGA, nor a material difference in ARPU as people come in the front door. So I think we're -- we should continue to progress on that set of conditions. The business seems like it's doing fine.

Scott Malat - *Goldman Sachs - Analyst*

Thank you very much.

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Operator

The next question comes from the line of David Barden, representing Banc of America. Please proceed.

David Barden - *Banc of America - Analyst*

Good morning, guys. Thanks for taking the question. Doug, maybe just a couple of questions on the subscribers. Just first, as we look at the guidance at midpoint for existing business 8.5%, times the 53.5 million covered POPs. It implies about 1.4 million subscriber growth over the next two and a half years in those markets.

When we look at the year-over-year comps in the second quarter, recognizing the seasonalities, - - this year we had the tax stimulus checks, we had maybe Sprint backing away a little bit from the prepaid market. And then obviously we had the economy, had some new markets launched in the latter part of '07. And yet the existing business subscribers were about 44,000, versus 127,000 last year.

So a relatively sharp deceleration, how do we think about kind of reaccelerating penetration in the existing business footprint to get to that kind of guidance target and interpret these kind of year-over-year comparisons where things seem to be decelerating in terms of penetration? Thanks.

Doug Hutcheson - *Leap Wireless International Inc. - Pres & CEO*

Well the first thing is, we launched a series of new markets in the second quarter of 2007. So you would expect on that comp that you would see a decline in the volume. Same as we have seen and we've guided people always that you would expect on that. So I think that's the first thing. The next thing is, I do remember our first quarter growth was pretty strong as well. So you saw I think people were - - when they had a chance to look at our first quarter growth and you look at the second quarter growth holding, we feel pretty good about that.

I do think when you look at the tax rebate part of your question. I think you need to be careful that whether the quarter ends on June 30th or July 30th, that you are just not getting a chance to see what that will or won't bring from a volume standpoint. So I think the reason we that we highlighted that we are moving through things and feel pretty good is based on the fact that we see that. And then the last piece, as I outlined some pretty discreet definitive programs with some pretty explicit impact that we expect those to have, as well as us making the investments around those.

And I think we feel pretty good about those programs. We see the results, the date of how it's changing our business. I encourage you to look at - - when we include it on the churn chart, as an example that you actually see - - core churn has gone down. As an example on the bar chart at the bottom of the churn slide. And you see us feeling comfortable that when we targeted in and done the things that we have on the network and the distribution that we are going to see benefits there.

So I think you are right on your math. We do think that there's substantial up side on it. We said for a while that we thought there was substantial up side available on our existing business and we have outlined that in a little bit more detail, as well as the programs that we think will allow us to go get that.

David Barden - *Banc of America - Analyst*

And Doug, if I just follow up quick - - looking again and then into the third quarter. Obviously - - you mentioned a strong July. To this point in time, relatively speaking, I suppose, with respect to obviously the very strong new market net adds, what is the more powerful force heading into the third quarter? Is it seasonality? Will it likely maybe drain some of that strength away, or is it given these markets are so new one can expect some - - continued level of run rate success in those markets? Thanks.

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Doug Hutcheson - *Leap Wireless International Inc. - Pres & CEO*

Well, remember -- let's break that into different pieces. The -- our business -- let me talk about the 53 million existing business first. Our business is seasonal. We tend towards seeing higher customer additions in the fourth and first quarter and lower customer additions in the second and the third quarter. And I have no evidence that this year will be any different than that.

So I -- we have an okay July start as we highlighted but August and September will -- and back to school will need to work its way through. We have good programs lined up for those but the business won't be materially changed by the outcome -- one way or the other in the third quarter. We will move into the holiday season in the first quarter and see how we move and progress through that.

The new market launches, as Al said, they are actually off. They started faster than what we saw on 58 launches. Now there are four markets. They are early. Seeing that would be important for us to have confidence to -- continue to both validate how we want to launch these markets. They are getting launched with a little bit more robust footprints and doing some things around us that we think will enhance how they generate long-term profitability.

These markets are also markets that, as we have been saying, that we expected to have higher penetration potential, and -- certainly we are seeing that. The first quarter, full quarter operation of the market tends to be the most robust time period for net additions and then you see that start to mitigate back a little bit. And so you will have some of those markets that will be entering their second quarter operations, some that will finish in the first quarter. So you will see a mix of results on those, but I think you will continue to see attractive performance. Last peak is we will launch additional Broadband POPs during the third quarter.

They may come a little later in the quarter, but we expect continued performance out of our markets, the 23 million that we have launched and we'll get some up take from the new market that will launch a little later in the quarter on our track towards hitting 100,000 Broadband nets by the end of the year. So it's -- I think the business is going to do fine on net. We'll probably see some areas that are a little stronger and some areas that are a little softer like you always do, but I think the business is pretty well positioned, Dave.

David Barden - *Banc of America - Analyst*

All right. Thanks, Doug. Appreciate it.

Amy Wakeham - *Leap Wireless International Inc. - Director of IR*

Katina, we have time for one more question.

Operator

Your final question will come from the line of Ric Prentiss representing Raymond James. Please proceed.

Ric Prentiss - *Raymond James - Analyst*

Thank you for getting me under the wire.

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Doug Hutcheson - *Leap Wireless International Inc. - Pres & CEO*

Thank you, Ric.

Ric Prentiss - *Raymond James - Analyst*

First, thanks for the slides. A lot of good information on them. I want to probe a little further on the Auction 66 markets. A nice pleasant surprise seeing those spike up so much. As you look at your funding that you got recently, and I know you have some chunky launches coming up. How do you look at what we might expect for the rest of this year, '08 to be seeing some POPs actually turn on?

Doug Hutcheson - *Leap Wireless International Inc. - Pres & CEO*

There may be a little bit of activity through the rest of this year, but, again, I think you pointed out that they are chunky markets that are there and I don't know that you will see big chunky markets happening - - this year you may see a little bit of activity on that. Our guidance is thought to have 36 million launched by the end of the first half of '09 and we anticipate that we would see that. I do think one way or the other, given - - the success that we are seeing on how we are launching these POPs, that you will see whether they launch in fourth quarter or first quarter, as an example, you will see the burn - - associated with those. You will see that come in advance of launching as we move through those markets to launch them on a robust way because of these early penetration results we have seen.

Ric Prentiss - *Raymond James - Analyst*

Fact, that gets right to my second question. With the \$38 million burn this quarter for the Auction 66 market split 28 for the 8 million POPs that you launched in the quarter, and 8 million for future POPs. How should we think about that \$6 aggregate, \$7 individual market spread as far as how far in advance should we start feeling the burn, \$3 to \$4 a POP, a quarter of burn something to think about. Just trying to think of spreading that 6 to \$7 over the course of -- how much quarters before launch, versus after launch.

Doug Hutcheson - *Leap Wireless International Inc. - Pres & CEO*

You know what, I think that's a great question and rather than - - why don't we take on the - we'll see if we can provide some information to help with that. We - - I don't have a quick answer on that. But I think to help people, I think we can provide people a little bit of additional information.

Ric Prentiss - *Raymond James - Analyst*

Okay good luck.

Doug Hutcheson - *Leap Wireless International Inc. - Pres & CEO*

Thank you everybody. Thank you for joining us today. Amy?

Amy Wakeham - *Leap Wireless International Inc. - Director of IR*

Thanks for joining us today. We look forward to updating you on our business in the next quarterly conference call. If you have any questions or need additional clarifications, please feel free to contact us at (858) 882-6084. Thank you very much.

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Operator

Ladies and gentlemen, thank you for your participation in today's conference. This concludes your presentation. You may now disconnect. Good day.

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