FINAL TRANSCRIPT

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LEAP - Q3 2008 Leap Wireless International Earnings Conference Call

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the quarter three, 2008 Leap Wireless International earnings conference call. My name is Missal, and I will be your operator for today. At this time, all participants are in listen-only mode.

We will conduct a question-and-answer session toward the end of this conference. (OPERATOR INSTRUCTIONS). As a reminder, this conference is being recorded for replay purposes.

I would now like to turn the call over to Ms. Amy Wakeham, Director of Investor Relations. Please proceed, ma'am.

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

Thank you, Missal. Good afternoon, and welcome to Leap'a third 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 November 19 by calling (888)286-8010. Callers from outside the US will need to dial (617)801-6888. The pass code for both calls is 78428117.

Today's conference call, with the Company presentation, is also being webcast live and will be available for replay on the Investor Relations section of our website at investor.leapwireless.com shortly after the completion of our live call. Joining me on the call today to discuss our third quarter results are Doug Hutcheson, President and Chief Executive Officer, Al Moschner, Chief Operating Officer, and Walter Berger, Executive Vice President and Chief Financial Officer.

Following our prepared remarks, Missal will come back on the line with instructions for the question-and-answer portion of the call. Glenn Umetsu, Executive Vice President and Chief Technical Officer, will join Doug, Al and Walter, for the question-and-answer session.

The results and data we will discuss today, including customer information, reflect the consolidated results of Leap, its subsidiaries, and its non-control joint ventures LCW, Wireless LLC and Denali Spectrum LLC for the period indicated. Also, as used in today's conference call and the Company 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 in operation and associated services in those markets as of December 31, 2007.

During our call today, we will discuss some non-GAAP financial measures. For a GAAP reconciliation of non-GAAP financial measures, please refer to the notes of the financial statements contained in today's earnings release, and also to the financial reports page of the Investor Relations section of our website at investor.leapwireless.com.

Statements made today that are not historical in nature, including statements about future events and performance, such as our plans to offer our services to additional covered pops and expectations regarding future growth, spending, results of operations, 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 31, 2007, and in our other publicly filed reports, including our form 10-Q for the quarter ended September 30, 2008, which we plan to file shortly.

For anyone listening to a taped or a webcast replay, or are reviewing a written transcript of our third quarter call, please note that all information presented is current only as of today's date, November 5, 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 - President & CEO*

Thank you, Amy. Welcome, and thank you for joining us today. Well, these appear to be challenging times, both economically and weather related, however we believe we are doing well even with the challenges we face in absorbing their effects.

While we find ourselves concerned, like I expect all of you are who have joined us today, we also find ourselves optimistic and looking forward to the coming quarters. We believe we are in the right place at the right time with the right products. And while we expect there will be challenges, we believe we are prepared to meet these.

As we look at our journey that we outlined in late 2007 to double the size of our business by 2010, we continue to see progress. The footprint expansions are going as planned. The new markets that we have launched in Auction 66 are now 8.5 million and we expect to be approaching 10 million by year end. We are looking forward to an acceleration of launches in the first half of 2009.

Our broadband initiative continues to progress well, with nearly 32 million pops launched as we look towards 60 million or more by the end of the fourth quarter.

Customer growth also continues with overall Q3 growth returning to the levels we experienced in 2006. The peak growth level that we saw in the third quarter during our last expansion, which was based on a much greater number of launched pops, than what we currently have.

We are now entering our typical higher growth quarters, the fourth and the first quarters, and we see as we'll discuss with you today strength in the existing business and acceleration in our broadband business. And as I discussed, increasing launches. While we expect challenges, we look forward to 2009.

Service revenues are responding to our growth, up 123% over the last three years, and we now see nearly 27 million from our new market launches in the broadband initiative. Total OIBDA performs as expected. The existing business is performing well at nearly $147 million, while the new initiative spending is on track. Our progress suggests a potentially promising future and we look forward to the challenges that are ahead.

Al?

Al Moschner - *Leap Wireless International - EVP and COO*

Thanks Doug. We continue to show customer growth in all areas. Reflecting seasonal patterns in our existing business, continued strong customer acceptance in our expansion markets and the building momentum in broadband.

Our net customer additions for the quarter were 156,000. Voice services net additions were 116,000, which include nearly 24,000 net adds in our existing markets and approximately 92,000 additions in our newly launched markets. All this came about in a period which saw national retail sales drop 1.2% in September, the third consecutive monthly drop and the largest since 2005.

The full impact of our growth was masked by the effects of Hurricane Ike and related weather systems that blunted the promising results we saw early in the quarter. The storms caused power outages that closed stores and shut down cell sites, and affected approximately 11.5 million covered pops for about an 11 day period. And we estimate the storms cost the Company from 11 to 23,000 net additions in our existing voice business.

Our teams in the affected areas did a great job of minimizing the effects of closed stores and out of service cell sites due to power outages. The Company offered our customers extended payment periods and free roaming.

In total, we believe the outages cost the Company approximately $2.4 million, 1.2 million reflected in Q3 expense, and the remainder we expect to book in Q4, and impacted revenue by 500,000 for the quarter.

Our broadband expansion continues to show good progress with approximately 40,000 additions, during the quarter and the continued expansion in our markets, which we increased by approximately 8.8 million covered pops to 31.7 during the quarter. Several of our planned broadband market launches were delayed until the fourth quarter as a result of previous discussed storms, and we estimate that delay caused us to lose between 2 to 4,000 net additions in the third quarter.

As we look to the fourth quarter, we see continued strong customer acceptance in our expansion markets in addition to the upcoming launch of Milwaukee and southern Wisconsin later this month. The expansion of the broadband initiative of up to 63 million covered pops by the end of the year, and anticipate the strong holiday buying season in our existing markets. We however, continue to be mindful of macroeconomic conditions like unemployment and fuel prices that may affect customer activity.

Customer churn for the third quarter was 4.2%, a full point improvement from 5.2% in the comparable period of the prior year. The third quarter is typically our highest deactivation quarter of the year. This decrease in churn is a result of the increase in customer tenure in markets launched in the first half of 2007, now returning the overall base to normal prelaunch levels.

Looking ahead we expect customers added in our newly launched Auction 66 markets will follow the same customer maturation process that the Auction 58 markets exhibited. Reducing overall churn, and then spiking in the second and third quarter after launch, before returning to mature levels in subsequent quarters.

The Company's third quarter churn performance also reflects the volatility of both an increase in customer deactivations and reactivations during the quarter, similar to what we experienced in the second quarter of 2008. We expect churn for the existing business in the fourth quarter and 2009 to reflect seasonal trends similar to 2005 and '06.

The Company continues to attract new customers and deliver greater profitability in our existing business. Our business cash cost per user grew by 20% year-over-year to $16.17, as we achieved a $1.69 reduction in CCU from a combination of the benefit of scale and cost management, and a $2.04 reduction in churn adjusted CPGA that offset a $1.05 year-over-year decrease in ARPU.

We effectively managed all of our metrics to deliver improved profitability. We are seeing approximately a $20 CCPU from our markets that are two years old or older, and we are also seeing an increasing contribution from our less mature markets. This growth in existing market profitability is funding all of our initiatives, so that we are able to maintain our year-over-year consolidated profitability as well at $13.01.

Third quarter consolidated ARPU declined 3.5% over the prior year quarter to $42.95. Several factors were at play here.

The decline in reflected the effects of higher seasonal deactivations that were further impacted by the continued volatility of increased customer deactivations and higher reactivations, and the impact of slightly lower than expected customer uptake of the Company's higher value rate plans and optional add on products in the quarter. We have seen a recovery in the uptake as gas prices have abated in the last 45 to 60 days.

Third quarter ARPU results also reflect the effects from our new initiatives, the rapid addition of customers in Auction 66 markets, whose ARPU although improving, experienced lower than expected initial ARPU, driven by the Texas border markets and [Hardray], and the expected lower ARPU from the expansion of the Company's Mobile Broadband initiatives.

Going forward we expect fourth quarter ARPU to reflect some seasonal improvement in our existing markets, changes being made to our higher end rate plan structure to reflect the expansion of a roaming plans to be introduced shortly, improvement in our expansion markets as they mature, and the addition of new markets. We expect broadband to continue in the current ARPU range of about $36, and to have a dampening effect on consolidated ARPU as the customer base grows.

Third quarter CPGA came in at $201, reflecting $186 CPGA in the existing business, and a new initiative incremental spend of $15. As always, we are working to keep costs as low as we can, and that's evidenced by the $7 year-over-year decrease of existing business CPGA.

The savings came from handset subsidy reduction, primarily but not exclusively related to the Cricket EZ, a low cost, low subsidy handset we introduced in early 2008. We are also successful in absorbing the new distribution cost we discussed in previous calls.

As a point of note, our non-Cricket handset activity continued to perform as expected in low double digit percent range of overall gross adds.

Our new initiative spend of $15 reflects peak 2008 launch cost related to new market expansion and the launch of nearly 9 million new broadband covered pops.

Looking forward, we expect the fourth quarter '08 CPGA to improve on a sequential basis due to an expected seasonal year-over-year improvement in our existing markets, while we expect new initiative incremental CPGA cost to be below $20.

Total Company Q3 CCU was $21.50, and reflects the increasing benefit of scale and cost management and investment in new initiatives. Our existing market CCU declined to $19.22, showing nearly $1.69 improvement year-over-year, as we absorb the footprint expansion in our existing markets. The new initiative spend of $2.20 per user reflects costs associated with new market development and Mobile Broadband expansion.

We expect the fourth quarter '08 consolidated CCU to remain in the $21 range, reflecting the continued hard work on the part of our employees to take advantage of the continued benefits of scale in our existing business, to offset the cost of our Company's new initiatives, so we continue to maintain an improved profitability.

I'd like now to hand the call over to Walter.

Walter Berger - *Leap Wireless International - EVP and CFO*

Thanks Al, and good afternoon, everybody. I'm pleased to have this opportunity to walk through our financial results for the quarter, which we think will show the strength and growth of our business to each of you.

To begin with, service revenues in the third quarter increased $80 million year-over-year, or approximately 23%. This increase reflects a combination of continued growth in service revenues for our existing business, which increased $53 million and $27 million of incremental service revenue contribution from our new initiatives that Al talked about.

Consolidated OIBDA increased year-over-year from approximately $96 million in Q3 of '07 to $98 million in 2008. This result reflects 49 million of net spending to support our new launches, these activities and the continued roll out of broadband.

Excluding the effect of these initiatives, Q3 OIBDA for the existing business increased $51 million year-over-year to $147 million, bringing the year-to-date OIBDA contribution for the Company to $436 million. As a result of our revenue growth and our continued focus on our costs, which I'll discuss the drivers in a second, we continue to see improvement in our OIBDA margin for our existing business, which increased 9 points year-over-year to 36%.

Our cost of service margin within our existing business has continued to improve as a result of our relentless focus on operating efficiencies and additional leverage as the business gains scale. Margin on the product portion cost to service improved year-over-year from 6.9% to 6.5%, due to improvements in the rate of long distance calling cost, roaming and other rate reductions.

Margin on the non-product cost of service for existing business, which includes back hall, site leases, et cetera, decreased year-over-year from 16% to 19% as a result of absorbing the cost associated with the footprint expansion program with our existing business. Margin improvements in sales and marketing for our existing business again represents the benefit of leverage on expense line that is approximately two-thirds fixed and includes direct store leases and sales and marketing staffing.

During the quarter, we saw improvements in the customer care and billing margin portion of G&A expense, reflecting the impact of nearly 500,000 increase in average customers in our existing markets on an expense that was essentially flat year-over-year.

In addition, we experienced a decrease in the remaining portion of G&A margin primarily due to certain non-recurring expenses for litigation settlement and business development activities. Without these costs, OIBDA for our existing business would have increased another $3.6 million to $151 million.

Consistent with our operating strategy, the Company continues to generate margin improvements that we anticipated. We believe we will continue to see improvements as a result of further penetration of our existing markets and our ongoing cost management initiatives. In the past we have demonstrated an ability to deliver OIBDA margins that exceed 40% over time.

Q3 results for our existing business indicate that we are well on our way to delivering similar margins in our existing business as we continue to grow and gain additional scale. The increasing scale is evidenced by the incremental 97% contribution margin that business delivered during the third quarter.

Our existing business has contributed $436 million of OIBDA through Q3 of '08, and we expect Q4 OIBDA for our existing business will be equal to or better than what we delivered in Q3.

With respect to new initiative spending, as we have shared with you in the past, as part of our ongoing growth strategy, we continue to invest in these initiatives. In the third quarter of 2008, we absorbed approximately $49 million of negative OIBDA for our new initiatives, which we expect to contribute to the future growth and profitability of the business.

Included in the new initiative spending for the quarter is approximately 17 million of negative OIBDA associated with our broadband initiatives. This negative burn includes approximately 6 million of fixed cost per quarter, which we expect to continue through Q4 of '08, and an additional 11 million of negative (inaudible) contribution associated with the 32 million covered pops we have launched through the third quarter of 2008. This burn also reflects prelaunch spending for the additional broadband pops we expect to launch in the fourth quarter of 2008.

Our negative OIBDA also reflects approximately $31 million we invested in our expansion markets. This includes both the ongoing investment in negative OIBDA for the 8 million pops we launched for the second quarter of '08, and approximately $15 million of prelaunch cost for the pops we expect to launch in the first half of 2009.

As you think about our fourth quarter, we expect our spending for the new initiatives that I've just addressed and that Al and Doug have also talked about, will generally follow our level of investment and it did in the third quarter.

Now with respect to below the line results. Turning to slide 19, net loss for the third quarter of 2008 was $49 million compared to a net loss of $43 million in the third quarter of 2007. The primary factors contributing to the increase were an 18 million increase in net interest expense relating to the $550 million of notes we issued in quarter 2 of '08, and the lower interest income as a result of changes to our investment portfolio to invest primarily in cash and treasuries.

Offsetting the impact of the increase was a $15 million increase in income tax expense, primarily reflecting a Q3 '07 change in accounting method of the tax amortization of wireless licenses. We expect to continue to report income tax expense of approximately $10 million in the fourth quarter, despite the fact that we report a full valuation allowance on nearly all of our deferred tax assets.

Last item on this page that I would like to cover with you is that, if you look at our Q3 '08 loss per share of $0.72, it's important to look what is included in this number, which is $0.73 per share of loss on our investments with respect to our new initiatives. Without the $0.73 of loss, we would have delivered an EPS for the quarter of $0.01 per share, or a $0.65 positive improvement from our Q3 '07 loss of $0.64 per share.

Total cash and short-term investments at the end of the third quarter were $826 million, a decrease of 108 million from our cash position at the end of quarter two. This change in cash primarily reflects $60 million of positive cash flow from operations offset by $190 million of cash outflow for CapEx.

Just take a second to talk about our CapEx. For the quarter, they were approximately $190 million, which reflects spending for our expansion markets and $13 million of capitalized interest. CapEx for the quarter also include maintenance CapEx for existing business and is consistent with our expectation in the mid-teens as a percentage of service revenue.

The Company currently has about $2.5 billion on debt on our balance sheet. Approximately 80% of it is fixed, and the first significant principal payment of $212 million occurs in September of 2012.

Lastly, before I turn it back over to Doug, I just want to talk about our strong cash position. And as a result of our current cash position and our ability to generate cash flow, we continue to believe that we are sufficiently funded for our current business operations and the expansion of our business through the launch of new markets, the expansion of our broadband service and footprint enhancement. And as discussed on the previous slide, the Company does not face any near term maturities of debt.

We maintain a thoughtful and disciplined approach in managing our capital resources and believe we can adjust our investment in growth initiatives to navigate through these challenging economic conditions.

With that Doug, I would like to turn it back to you.

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

Thanks, Walter. Now taking a look at our growth initiatives, we believe we have a clear strategy for delivering continuing growth. Whether we look in the product area that enhanced voice and mobile data services, the continued expansion of broadband or the careful review of our trials in the prepaid space, we look forward to continued success in the product area.

In addition, we have both footprint and operational improvements to expand our growth opportunity in our existing markets with both footprint and distribution improvements, and our new markets as we launch those with the consolidated product portfolio and the improvements that we are implementing in our existing business as well.

Our value leadership in the mobile voice and mobile data offering continues. Our most popular rate plan, our $45 rate plan, competes well when reviewed, compared to the other national carriers. For consumers in challenging times, they can save over $600 a year using our services.

In addition, we continue to look at additional services and functionality, to expand and improve our offerings. We look forward to next week launching a new, nationwide footprint and associated new plans, service plans ahead of our normal holiday volume.

Our voice service revenue includes the opportunity for returned uptake as we've already experienced in this quarter for ring tones, directory assistance and international services, and during the third quarter we did trial and get initial experience with the family plan. Our focus on mobile data services continues with the launch recently of mobile video, and we look forward to expanding both our web activities and streaming upgrades in 2009.

We understand the trade off between growth and ARPU, and we will manage that. We believe the new products will drive enhanced ARPU opportunities, and the bundling of products over time provides our ability to drive increased value at customers.

Al discussed our results on our Cricket Wireless Internet Service and that expansion continues. As a reminder, this service provides unlimited Mobile Broadband access that is comparable or better than many other Mobile Broadband products.

Our pricing is $40 per month for new customers and $35 for existing customers that already have a voice plan. It relies on a universal USP device that works both in desktop and laptop computers, and we expect it will achieve full volume pricing levels by the end of the first quarter 2009 for this device.

The business opportunity is advancing attractively with nearly 55,000 customers at the end of Q3. The mix continues to be moderately weighted towards new customers that are joining us at Cricket, and the usage levels are slightly higher than expected but we see trends that we expect will decline over time.

Business performance expectations have been advanced this quarter. Customer growth has been extended from 100,000 by year end, to 130 to 150,000 customers. The expected negative OIBDA burn is on track to peak in the second half of 2008, but as we see strong customer uptake continue into the first quarter, we expect the positive OIBDA contribution will begin in the second half of 2009.

We recently announced the trial in the prepaid space, Cricket PAYGo. We think this trial is important because it provides the Company with the potential benefits of an appropriate prepaid product. It drives value to the prepaid segment that is simple and straightforward with pricing at 1, 2 and $3 a day.

It opens big box distribution with the right products that have been proven to sell well and generate long term value there. It links the revenue we receive, the usage of the customer and the cost that we incur, to an attractive economic formula. And lastly, provides significant differentiation with our current monthly products to minimize the effects of any cannibalization that we might see.

This trial launched in the third quarter of 2008 with nearly 600 Walmart locations and three Cricket markets, Houston, Savannah and Cincinnati, with approximately 1,500 locations. This trial will follow the same principles we have followed with other trials, and we will be disciplined and advance our progress based on the success and the results that we see.

We do not expect this to impact 2008 financial results significantly, and we will outline the expected impact of 2009 based on trial results.

Looking at our existing business. Again as a reminder, we have traditionally and expect to continue to see, historical growth as our markets mature roughly a half a percent per year, and also as a reminder we see our leading markets in double digit penetration and continuing to exhibit annual growth.

We have two major initiatives that we believe over time will generate additional growth potential. During 2009, as they come online on 31 million covered pops, we expect further improvements at our distribution, including enhanced direct store operations and relocations where appropriate, increased indirect channel performance management, and with the combination of the network activities, increased market level awareness.

In addition, by year end 2010 we also expect to add up to 600 additional sites within our existing footprint. We believe that this will affect markets covering approximately 45 of the existing 53 million covered pops.

Therefore we believe that our long term penetration potential for existing markets will be between 8 and 9%. Also the businesses have and we expect will continue to be in a period of significant growth, and we are looking at further system enhancements. We expect to finalize the next step soon on a billing system upgrade, and we will announce those when those are completed.

The new market launches will continue through the end of the first half of 2009. Our market launches to date show cost under control and customer uptake that is attractive as we shared. The further launches will include a broader product family, including voice and mobile data services, our broadband product, and pending trial results, potentially the introduction of the PAYGo product.

We currently expect several additional launches in 2009. Those would include Chicago, Philadelphia, Baltimore and Washington, DC. We expect, based on the results that we see, that we will modulate those and ensure that we continue to drive for the best potential return for our investors.

In addition, we have 14 million covered pops for build out, potentially by year end 2010. The final pace and timing on these will be dependent on the business performance.

In conclusion, we believe that Leap is in the right place at the right time with the right products. The business is well positioned, expanding its role as a value leader in the wireless space, and we've seen that provides good customer growth, and we have seen resilience even in uncertain times.

We have assembled the right assets at the right time. Our existing business operating performance continues to do well. We have adequate financial resources and an attractive spectrum portfolio.

Our products and our network are well positioned. We have industry leading value voice and mobile data services products. We have an upcoming good success with our mobile broadband products, an initial trial on PAYGo and we look forward to the results from our upgraded networks for both data and our footprint with finally new market launches.

We have assembled a strong team of dedicated employees. On behalf of all of us, I want to thank all the employees that did the strong work during the hurricane and the related weather events to recover our networks. We have a management team that can deliver, that has the experience to navigate through these uncertain times. We look forward to continuing to deliver on our plan to double the size of our business by the end of 2010.

With that, I'd like to open it up for questions and answers.

QUESTIONS AND ANSWERS

Operator

(OPERATOR INSTRUCTIONS). Your first question comes from the line of Phillip Cusick with Macquarie. Please proceed.

Phil Cusick - *Macquarie - Analyst*

Hi, guys, thanks for taking the call.

Walter Berger - *Leap Wireless International - EVP and CFO*

Hi Phil. How are you?

Phil Cusick - *Macquarie - Analyst*

Good, thank you. I have to commend you on some record timing in getting through the presentation.

Maybe we can start with, you talked about the deactivation, reactivation activity in the quarter. Can you quantify this for us. Is there an average number of days that customers are disconnected that you can talk about, and that's got to be higher this quarter than it was in previous times.

Al Moschner - *Leap Wireless International - EVP and COO*

Actually Phil, this is Al Moschner. We look at that data pretty carefully, and I would say that we have not seen really any change in behavior in that volatility that I talked about since the second quarter of '08. And when we started to see that occur.

Our suspicion and hypothesis is that as the economic conditions actually got a little worse and gas prices, somewhat the discretionary income has been affected, that we have seen customers come on and off the service. And they have used their existing handsets as a means to really reactivate, and so we have seen a balancing effect of that over the last couple of quarters, and I would say that we haven't seen any increase or decrease, but sort of a flat quarter-over-quarter activity as we looked at the data.

Phil Cusick - *Macquarie - Analyst*

Okay, I thought that part of the explanation for ARPU coming down quarter-over-quarter was an increase in that activity. I guess I was wrong there.

Al Moschner - *Leap Wireless International - EVP and COO*

There was actually an increase in the third quarter overall deactivations, which is seasonal, Phil.

Phil Cusick - *Macquarie - Analyst*

I see. And then, there was another point in the presentation when someone talked about improvements in the business trends over the last six to eight weeks. Can you talk about that as well?

Al Moschner - *Leap Wireless International - EVP and COO*

Yes. That is really, it's actually the last 45 to 60 days. We have seen an increase or an improvement in our higher level rate plans, as well as our attach rates on our bolt-ons. That is an area that we have seen some erosion in during this period of time, and recently we saw an improvement in that, and that has held.

Phil Cusick - *Macquarie - Analyst*

Okay. And then one more, a little bit esoteric question from me. You've been running the $50 Cricket EZ phone for a few months now, I think three to six months now, and I wonder if you have seen any difference in the conversion of that customer from walking in the door and buying the phone to becoming a paying customer over the next few months, versus people who have a little more skin in the game, whether they come in at 100 or $150. Is that conversion rate consistent at the $50 level as it is as other price points?

Al Moschner - *Leap Wireless International - EVP and COO*

Phil, let me ask you a question. Is this your question about longevity or is it your question about what rate plans they actually take?

Phil Cusick - *Macquarie - Analyst*

No, I'm actually asking a question about longevity. So, do those customers convert from being a free month up front, to paying their bill on the first bill, bill timing?

Al Moschner - *Leap Wireless International - EVP and COO*

We typically see a relationship with out the door pricing. So as we reduce out the door pricing, we will see some increase in first bill, not pay activity, but aside from that, once they get through the initial payment cycle, the longevity of those customers really don't deviate too significantly from the rest.

Phil Cusick - *Macquarie - Analyst*

Okay, that's great. Thanks a lot guys.

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

Thanks, Phil.

Operator

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

Romeo Reyes - *Jefferies - Analyst*

Do I get ten questions also? First, can you give us a sense of what your broadband costs are on I guess your data product? Second is, with respect to your footprint augmentation slash expansion, you talk about enhancing your penetration and also overlaying some additional distribution. Can you give us a little update on the early results on that? Thanks.

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

Sure, Romeo. On the broadband, we provided a fair amount of update in our guidance, so let me walk you through what is in there. The first is, we expect cumulative variable negative OIBDA burn to peak at about $0.50 per covered pop. That won't be the peak at the market level, we will see contribution from the more mature markets come as they break even, typically after about three quarters.

We extended the number of covered pops that we expect to see from about, previously we were a little bit more than 60 million and now we've included what we expect to launch by the end of the first half, so gone up to about 87 million covered pops. And we provided also that, due to the success and some of the progress that we have seen that you'll see in 2009, that the fixed costs associated with the product will increase, which are included in our total results that we expect it to be OIBDA positive in the second half of 2009.

By the end of 2009, with the around $36 ARPU that we discussed, we expect that that will contribute on what we call the calculated contribution per user, CCPU, will contribute between 10 and $15 on that product, and so that will give you an idea of the split. There will obviously be some recurring adjusted CPGA cost in CCU. We haven't given the detailed breakdown on those, but I think you'll see that gives you an idea of how much contribution we'll be seeing there.

The second question was on footprint, and Romeo, can you clarify exactly what you are looking for there?

Romeo Reyes - *Jefferies - Analyst*

I'm just trying to figure out, you said in the past that you expect anywhere between, I don't know if it's 70 -- 75 to 1.25 (inaudible) from expanding the footprint, improving and building penetration and such, and I'm just wondering if you have any data points as to how much that helped in the quarter.

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

Well, certainly year-to-date, we shared quite a bit of data that we saw the markets that we had done the footprint expansion, and we have seen a double digit, about 10% increase in sales on those markets. And we've seen a reduction in churn, and so we've disclosed that previously. And that was on the markets that we touched the footprint on, and I don't think we have any reason to believe that that data isn't going to continue.

But we've also in that, talked about adding a little bit more penetration in coverage, that you'll start to see some of that in 2009. But as we guided that will also happen through 2010, and we believe that will drive a little deeper in building penetration coverage, and we mentioned on our last call that we thought over time that would drive roughly 2% in additional penetration.

We are a little bit further along on the distribution. We have a few markets, some early markets that have showed some good results on the distribution, and when Al talked in the fourth quarter, we've seen the quarter start out with some pretty good volume, certainly when compared to last year. A lot of that has been concentrated in the markets that have been further along, both with the old footprint and the distribution improvements that we see.

So, what we find is when people have money, they are responding well, and we are feeling that we are headed in the right direction on that and we believe that we should move through things with it.

Romeo Reyes - *Jefferies - Analyst*

Thanks a lot.

Operator

Your next question comes from the line of Chris Larsen with Credit Suisse. Please proceed.

Chris Larsen - *Credit Suisse - Analyst*

Hi. Can you hear me?

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

Yes, I can, Chris. How are you?

Chris Larsen - *Credit Suisse - Analyst*

Doing very well, and I wanted to -- it looks like a good solid quarter in terms of net number of adds based on all the numbers I've seen, it looks like only, of the dozen or so (inaudible) polled, it looks like you beat all their net expectations. ARPU was a little bit softer, and I was trying to back into the amount of sequential dilution from data, and I was wondering if you can give us a sense for just about how much the data has a dilutive impact on ARPU this quarter?

And second, I'm guessing you are not going to answer this but I'm going to ask it anyhow. Can you tell us if the national roaming plan that we're going to get, will that include more than just the metro footprint, and then you alluded to some of the metrics in October.

Can you talk about churn as well in October, and net adds, have we seen, it's obvious the economy seemed to take a turn for the worse, have you seen any other metrics that would suggest that is getting better or worse for your business? Thanks.

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

Sure. So, Al you want to take, why don't you start with what we're seeing in October in roaming, and then I'll finish with the ARPU.

Al Moschner - *Leap Wireless International - EVP and COO*

Yes, hi Chris. As I mentioned in the call, what we really are expecting in the fourth quarter is for us to continue now to stay on that 2005, 2006 trend in our existing business.

We have gone through the tenure effect in our launch markets in Auction 58. We are back down to what I would consider normal churn profiles for ourselves that are seasonally adjusted, and I expect in the fourth quarter at least with the October data would suggest that we are well on that path to stay on those lower churn curves.

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

It's interesting because along the way we've talked to you, to investors about how we thought core churn was getting better over time, and we think that shows pretty clearly in the third quarter. And when we talk about going all the way back to 2005 and 2006, that's even now with the businesses absorbing upgrades as well in that number.

So our core churn right now seems to be doing fine, other than the volatility that we discussed we've seen in the last couple of quarters, a lot more both deacts and reacts in that area. But core churn appears to be holding pretty well, and that seems to be transferring to nets at this point.

Al Moschner - *Leap Wireless International - EVP and COO*

Right. And we are at this point seeing some good customer additions through the first quarter, first month of the quarter I should say.

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

Do you want to talk about the footprint?

Al Moschner - *Leap Wireless International - EVP and COO*

The roaming, the changes that we are talking about, Chris, remember that we have been roaming -- have had roaming plans introduced almost two years now, and we have continued to improve them by growing our coverage and growing our capability. And this latest change just continues to make enhancements, and we obviously will also take advantage of the new roaming agreement that we have with MetroPCS. That roaming agreement not only gives us a better cost profile that will help us in the upcoming quarters as well as giving us better geographic presence.

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

And then the last thing, Chris, you asked about the broadband dilution on ARPU. It will dilute. So the Company's overall ARPU, you are going to see that dilute. It's a product that we expect to perform approximately around $36.

How that's going to affect ARPU in the long term really is a volume issue. We are waiting to let that evolve so we don't have long-term good assessment until we see how the volume comes along with how much dilution that that will come on the ARPU side.

As we look at it, we expect we are going to see, we thought we'd see it in the third quarter. We still expect that we will see some recovery in the ARPU in the existing business. We see that as we watch people coming back to the bolt-on product, and we see the normal, seasonal reduction in deactivations.

Now, that is based on what we have seen thus far and that can change as we get further into the quarter. But as we watch gas prices subside, we have seen a more broad uptake of things, and we'll also see what happens on the rate plan uptake with some of the changes that we are going to make ahead of the holidays.

And then the last piece that Al also talked about is, we expect we'll see as we extend and expand Auction 66, footprint launches, that you'll see a larger contribution coming from those.

We think ARPU is in good shape, especially when we look at the trade off that we are trying to do between growth and volume, and generating cash flow and margin. But we know we would like to keep our eyes on it and see if we can get a little bit more out of it, and I think the team is focused on that.

I think some of the parts of the business have a little bit more potential than broadband. I think broadband is going to run in the $36 range for now, but we'll be on it. Thanks, Chris.

Chris Larsen - *Credit Suisse - Analyst*

Thank you guys.

Operator

Your next question comes from the line of Scott Malat with Goldman Sachs. Please proceed.

Scott Malat - *Goldman Sachs - Analyst*

Hi, good evening. I thought I saw $25 plans, promotional plans during the quarter. Was I right in seeing some of those out in 3Q?

Al Moschner - *Leap Wireless International - EVP and COO*

Yes, hi Scott. Yes you have, and in fact what we do is we use a promotional plan that we use to actually incent customer activity, and it's a very good base that we actually sell up from. We see frankly very little penetration in that particular rate plan, and we really use it as a stimulus for the market.

Scott Malat - *Goldman Sachs - Analyst*

How do you decide kind of when to institute these promotions? I understood ahead of holiday. Are there certain times of the year where you are more promotional than others? How are you thinking about the cycle?

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

About a year ago we shared some data about different quarters have different buying seasons on them, and we tend towards wanting to generate the volume and the traffic during those buying seasons. So during the third quarter.

Al Moschner - *Leap Wireless International - EVP and COO*

Clearly, when there's activity that is expected, whether it's back to school or holiday season, there are different times in the year where this makes a lot of sense where you have customers that are very oriented to buy, and you really want to orient them to your store. You obviously provide incentives and promotions that drive traffic into your particular area.

Scott Malat - *Goldman Sachs - Analyst*

Okay, thank you, and just one other. I wanted to get your thoughts on some of the roaming provisions from the FCC on the Verizon Alltel deal, your thoughts on those.

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

I think it's a work in progress. I would say there is still an open docket with the FCC that we expect will get heard now, most likely in the next coming months, most likely first quarter is our assessment that will advance that.

But as far as what they did yesterday relative to the Alltel, Verizon merger, I think that that is progress for us. It allows us to continue to use the agreements that we have in place, and we believe that we will make progress. I think the docket on the roaming is pretty active at this point, and we are optimistic that there will be more progress as that docket has a chance to continue.

I think we have time for one more question.

Operator

Your final question comes from the line of Rick Prentiss with Raymond James. Please proceed.

Rick Prentiss - *Raymond James - Analyst*

Yes, thanks for getting me under the wire there guys, good evening.

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

Hi Rick, how are you?

Rick Prentiss - *Raymond James - Analyst*

Very well. Thanks. A couple of questions for you, maybe one question with ten parts. No.

The nationwide roaming plan, as you look at that plan and you have had plans out there for a couple of years as Al you mentioned, how do you think that helps you if you would look at it say from a gross add side, does it bring customers into the store and your ability to get them? What about on the ARPU side, what potential impact could there be on the churn side, maybe what potential impact could there be as far as keeping customers on your revenue rolls as opposed to losing them? If you look at nationwide roaming, how would you compare and contrast your ability to get adds with it versus ARPU versus churn improvement?

Al Moschner - *Leap Wireless International - EVP and COO*

Sure, Rick. Hi, how are you? I would say that roaming plans haven't necessarily been a big driver of front door activity. It really helps in the other two categories that you mentioned. And that is retention. As a carrier that has some footprint limitations, as you can extend those limitations with better roaming product at better prices, that is clearly a positive. And then secondly, as you get customers that do consider Cricket, it is a very good tool to actually sell a higher end rate plan. With this latest enhancement that we are making, again incorporating some of the new capability that we've established, it can drive behavior to higher end rate plans, typically where we package it, or if customers want it at a lower end rate plan, they can buy an additional optional bolt-on, which we will price at about $5. So we get both ARPU enhancement as well as churn improvement, and it's hard to measure what the front door does, but I would suggest that would be the least of the three.

Rick Prentiss - *Raymond James - Analyst*

Okay, and then the second question, just hopefully, we've heard Sprint talking about they want to get in the marketplace of unlimited. Can you just address and remind us the historical, what you saw when Sprint used to offer the unlimited, and what you think they might be coming up with and how that might effect your business?

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

Well, I sure can't comment on what they might be coming up with, but I can talk a little bit about, that we certainly have had now, I think we are up to the 13 or 14 different unlimited competitors at similar price points over the eight, nine, ten years that we've been at this. And so I would start out that we have continued to advance our business in the face of that, and we expect that we will continue to advance that.

Relative to what I think as we understand it, the idea that it will go back to the [IDEN] network, that network was generally designed for pretty high ARPU, lower usage, services other than the push to talk piece. And so I'm not sure what the cost structure will be on that or what the pricing will be, but we feel like the business is positioned to, as it has been, absorb competition. We feel like we get better with competition, and so we'll try and work our way through it, and if that's what challenge comes at us, we'll take that on and see what we can do with it.

So Rick, thank you very much, and with that, Amy?

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

Great, thank you for joining us today. We look forward to updating you on our business on our next quarterly conference call. If you have any further questions about our third quarter results or need additional clarification, please feel free to contact us at (858)882-6084. Thank you.

Operator

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