

FINAL TRANSCRIPT

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LEAP - Q4 2008 Leap Wireless International Earnings Conference Call

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PRESENTATION

Operator

Good day, ladies and gentlemen and welcome to the fourth quarter 2008 Leap Wireless International, Inc.'s conference call. At this time, all participants are in a listen-only mode. We will facilitate a question-and-answer session towards the end of this conference. (Operator Instructions). I would now like to turn the conversation over to your host for today's call, Ms. Amy Wakeham, Director of Investor Relations. Please proceed.

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

Thanks, Emitie. Good afternoon, and welcome to Leap's fourth quarter 2008 conference call. Thanks for joining us today. This call is being recorded and will be available for telephonic playback through the close of business on March 10th. Today's conference call with its 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 our call today to discuss our fourth quarter results are Doug Hutcheson, President and Chief Executive Officer, Walter Berger, Executive Vice President and Chief Financial Officer, and Al Moschner, Chief Operating Officer. Following our prepared remarks Emitie will come back on the line with instructions for the question-and-answer portion of the call.

The results and data we discuss today including customer information reflect the consolidated results of Leap, its subsidiaries, its joint venture partners for the periods indicated. Also, as used in today's conference call and accompanying presentations, the terms existing markets refers to the Company's markets in operation as of December 31st, 2007, and expansion markets refers to the Company's new markets in which we have launched service after December 31st, 2007. In addition, the term existing

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business refers to the Company's business operations in effect on December 31st, 2007 excluding any effects of the Company's new market launch activity or its Cricket broadband and Cricket PAYGo service offerings.

During our call today, we will discuss some non-GAAP financial measures. For a GAAP reconciliation of our non-GAAP financial measures please refer to the notes to the financial statements that were contained in today's earnings release and also to the financial reports page of the investor relations section of our web site 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 these 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, 2008 which we plan to file shortly.

For anyone listening to a taped or a webcast replay or reviewing a written transcript of our fourth quarter call, please note that all information presented is current only as of today's date, February 26th, 2009. 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 like to now turn the call over to Doug.

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

Thanks all of you for joining us this afternoon. As we review our results and outlook today, it is clear that the resilience of our business and the success of our core strategic focus continues to enable us to deliver strong customer and financial results even in this challenging economic and competitive environment. Further, as we have now moved well into the implementation of our new initiatives, we have increased visibility into how we expect the business to perform in the coming months and quarters, which we are pleased to share with you today.

Turning to our full-year results, 2008 was a year of building a strong foundation for what we expect will be several years of significant future customer and financial growth in 2009 and beyond. Even as we were active in building for the future, 2008 was a good year, perhaps a great year given the overall environment. Our customer additions increased nearly 50% year-over-year to 942,000 net customer additions. Churn dropped year-over-year as we anticipated the early effects from the launch of the Auction 58 markets would subside and the business would return to more traditional levels of churn.

Service revenues improved as well as total revenues by over 20%. Our additional OIBDA for our total business increased 5%, but when the nearly \$173 million related to our future new initiatives is removed, the business increased adjusted OIBDA, the existing business, by 50%.

Our strategy is working. When 2008 results are put in perspective, both to where we have been in the previous three years and where we expect to head in 2009 and beyond, it is clear. Our covered POPs in the last three years increased from 27 million to 67 million covered POPs, an increase of nearly 143%. What came along with that was 131% increase in customers. During the course of 2008, we completed the roll out of our broadband initiative across all 67 million POPs and the expected Auction 66 launches of 11 million covered POPs were completed during the quarter and we look forward to another 25 million this year, bringing our total to over 90 million covered POPs.

Turning to adjusted OIBDA. For the last three years OIBDA grew by 50% even while absorbing \$172 million of investments in the growth initiatives. The existing business adjusted OIBDA increased by 112% during that same period and we believe the investments that we have made for our future growth initiatives will generate significant future cash flows.

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Let me now turn the call over to Walter to review our financial results.

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

Thanks, Doug. And good afternoon, everyone. While the macro economic conditions remain challenging for all sectors of the global economy, we at Leap remain encouraged by the resiliency of our business and how it demonstrates today and how our core strategic focus has continued translating the fundamental strength of Leap's financial and operating results which I will share with you today.

So, if you will turn to Slide 9, which demonstrates that the business ended the year very strong as evidenced by the solid customer growth and is well positioned for the coming year and beyond. Service revenue increased by \$86 million or 23% from the year ago quarter. This increase primarily reflects the combination of continued growth in service revenues for our existing business which contributed \$43 million to this overall year-over-year improvement and \$43 million of incremental service revenue realized to date from our new initiatives.

On a consolidated basis, adjusted OIBDA decreased year-over-year from \$113 million in the fourth quarter of '07 to \$91 million in the fourth quarter of 2008. This decline in year-over-year adjusted OIBDA was as expected and reflects \$59 million of net operating expenditures invested in our new initiatives which include our new market launches and our Cricket broadband products, which, by the way, is now rolled out in all of our markets. Excluding the effect of these new initiatives, fourth quarter adjusted OIBDA for our existing business, which is defined as those markets and products in operation at the end of 2007, increased \$37 million year-over-year, or just shy of \$150 million, bringing the full-year contribution from our existing business to \$586 million. This increase is nearly 49% from the \$392 million generated for the full year of 2007, representing substantial improvement in the financial performance of the more mature part of our business. This serves to highlight the continuing benefits of scale and related improvements in operating margins we expect to continue realizing in the coming quarters.

With respect to slide 10, as expected, we aggressively drive all of the relevant metrics of our business. And as we manage changes in our ARPU, we continue to grow and scale our business as reflected by the positive results we are seeing in our customer activity. We also continue to aggressively manage our costs to drive continued improvements in customer profitability and increasing benefits of scale. We are very pleased with the progress we are making on this front, as illustrated by our approximately 6% year-over-year increase in adjusted OIBDA operating margins or just 90% incremental contribution margin.

Now on a sequential basis, the adjusted OIBDA margin generated by the existing business was essentially even with the 36% we reported during our earnings call for the third quarter. However this primarily reflects the heavy weighting of customer additions since the last month of the year, which we have consistently seen in our business over the years, and a nearly \$8 million increase in net equipment net cost associated with our normal holiday promotion activity on handsets, and over 100,000 additional gross additions for that period. As we look ahead to the performance of our existing business in the first quarter of 2009, we expect to see existing business OIBDA margins improve as we realize the full benefit of the revenue generated by our fourth quarter customer additions.

We have previously demonstrated an ability to deliver OIBDA margins that exceed 40%, and our fourth quarter results once again indicate that we are well on our way to delivering similar margins in our existing business, and over time our consolidated business as well, as we continue to grow and gain additional scale.

Before I talk about this slide, one of the things I want to share with you, I think there's an indicator saying that there is an update in process. This slide is final, and complete and you should refer to it accordingly. With respect to this slide, as we shared with you over the past several years, Leap's ongoing growth strategy also reflects the investments we are making in new initiatives intended to expand the breadth of both our network coverage and wireless products.

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On slide 11, we provided you with the detail of how these investments have flowed through our fourth quarter results. As I mentioned to you a moment ago, included in our consolidated adjusted OIBDA for the quarter is \$59 million of net operating expenses associated with these new initiatives. Included in the new initiative spending for the quarter is \$24 million of negative OIBDA associated with our Cricket broadband initiative. Our Cricket broadband product continues its exceptional growth as evidenced by the 133,000 net adds for the year and has become an important part of our business. Based on the progress we are seeing with this product, we expect our broadband product to turn OIBDA positive in the second half of 2009.

Also included in our new initiative spending is \$33 million of OpEx investment for our new expansion markets. This includes both negative but declining OIBDA investment for the 11 million POPs we launched during 2008 and prelaunch costs for both Chicago and the other new markets we expect to launch in the first half of 2009.

Taking all of this data together, our hope is that we better define the landscape with respect to the progress we have made over the past year. This overall improvement is further reflected in the business outlook that we have provided in our earnings release today. And while the current economic climate introduces a degree of uncertainty that must be taken into account in our planning, we believe that the fourth quarter of 2008 and the first quarter of '09 represent the peak OIBDA investment periods for our initiatives.

Supporting this expectation is the strong performance we have seen from both our broadband service and the AC 66 markets launched in 2008. To this point, I am very pleased to report that during the fourth quarter of 2008, three of our AC 66 markets launched mid last year began contributing positive OIBDA at the market level at year end, with the fourth one expected to reach this milestone in the current quarter. Quite an accomplishment.

Now turning to slide 12, we ended the year with nearly \$600 million in available cash, reflecting \$230 million of investments and other uses from our unrestricted cash position at the end of the third quarter. This quarterly change in our cash position reflects the growing adjusted OIBDA contribution from our existing business and costs associated with ongoing debt service in the operating capital investments we are making to support the growth of our business. We have made significant progress in implementing our new initiatives resulting in peak spend for capital and net operating expenses in the fourth quarter. The \$270 million of capital investment completed during the fourth quarter brings our total CapEx for the year to just under \$800 million. A significant percentage of this investment has supported the buildout of our new expansion markets and other initiatives.

By year end we launched new markets covering approximately 11 million POPs and had invested a substantial portion of the funding expected to be required to launch markets covering an additional 25 million POPs in 2009. In addition, we completed the first phase of our network expansion activity deploying new cell sites in existing markets to improve coverage for our customers. We also completed the rollout of Cricket broadband service to all launched markets covering approximately 67 million POPs by 2008.

Our results for the full year of 2008 reflect a comprehensive investment made to expand both the breadth of the services we provide our customers and the increases in our network footprint across the country. We believe these capital and net OpEx investments have reached their peak and will decline throughout 2009. Given the increasing scale we have and expect to continue to see in our existing business, and the anticipated financial performance and operating performance from our new initiatives, we believe that we are currently on track to be levered free cashflow breakeven on a consolidated basis at or near the end of 2009.

Before Al discusses our operational results, I want to turn to Slide 13 and talk briefly about how we are managing our liquidity in the current economic environment. In today's challenging business environment, we routinely focus on our liquidity. We ended 2008 with a strong balance sheet that reflected expected year-over-year improvements in cash flow from our existing markets, as they gained additional scale, as well as proceeds from our successful capital raise in June of 2008. We believe that our current cash position, together with our ability to generate cash flow, provides us with sufficient liquidity for our business operations and current expansion initiatives, even in today's uncertain economic environment.

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The completion of our investment cycle to support our new initiatives over the coming quarters is reflected in both the 2009 adjusted OIBDA and CapEx guidance we provided you today. For full year 2009 we expect CapEx to be in the range of \$625 million to \$725 million excluding capitalized interest. Reflected in this outlook is the ongoing and maintenance CapEx to support markets which are a year older, which we expect to run at a mid teen level as a percentage of service revenues. We intend as well to actively manage our expenditures and continue to disciplined approach to expansion and balance sheet management we have previously demonstrated. We intend, as we always do, to actively manage our expenditures and continue a disciplined approach to expansion and balance sheet management we've previously demonstrated.

We've deepened our review of various counterparty risks facing the business in this current climate and have undertaken or strengthened existing initiatives to provide us with greater visibility into emerging business trends. We have also undertaken a full review of the principal call centers within our business including supply chain and procurement which AI will address more deeply in his discussion. While it will take a number of quarters to realize the opportunities provided by these initiatives, the improvement to our operating efficiency over time is expected to be meaningful and further contribute to cash flow generation and the quality of our balance sheet.

Briefly, while looking at our capital structure, which I know many of you are familiar with, the Company has about \$2.5 billion of debt on its balance sheet, approximately 80% which is fixed, and the first significant principal payment of \$212 million does not occur until September of 2012. So as part of our focus on ongoing cash management activities, we believe it is prudent to continually review our available sources of liquidity. These resources include our \$200 million undrawn revolver which we do not rely on when planning for any future cash needs. Although we have no current plans to raise additional capital, we do intend to file a universal shelf registration statement with the SEC in early March that will provide us with flexibility with respect to any future capital raising activities. The timing of this shelf filing is tied directly to the Company being eligible again to be a (inaudible) issuer in the filing of our 10-K in the next few days.

So with that I would like to thank you for your time and your review of our material. I would like to turn it over to AI for a discussion of our outstanding operation results.

AI Moschner - *Leap Wireless International, Inc. - EVP, COO*

Thanks, Walter. In the fourth quarter and for the entire year of 2008, we accelerated growth in our business with our broad suite of Cricket's unlimited products in some of the largest metropolitan areas in the country. Customers in our markets are responding well to the value innovation that we are delivering with these products.

We added 385,000 new subscribers, with 241,000 being added in our existing markets and 144,000 in our expansion markets, achieving 3.5% market penetration at year end. Our Cricket broadband service added 79,000 new customer additions in the fourth quarter, helping us achieve an important milestone of over 130,000 subscribers by year end. We expect to build on this growth in 2009, through the additions of continued new market launches planned through mid year, as well as from the growing momentum of our Cricket broadband service which has successfully gained traction and broadened the appeal of the Cricket brand.

We are also looking forward to building on the growth within our existing business. In 2008, voice penetration increased by 0.9%, reflecting the success from the footprint enhancement activities that we have completed and continue to invest in. And with the addition of our Cricket broadband service, penetration further increased 1.1%.

Turning to Slide 16. For the full year of 2008, we added 942,000 new subscribers which accelerated our year-over-year subscriber growth to 34% from 28% a year earlier. With our full-year 2009 guidance of adding at least 1.5 million new subscribers, we continue to accelerate our subscriber growth rate to approximately 40% in the wake of a deteriorating macro economic environment by broadening the breadth of our product offerings and building on our organic growth and market expansion.

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Turning to Slide 17, in today's increasing competitive environment, we have and continue to grow market share against look-alike competitors. We have engineered our business from the ground up by building awareness around compelling, value innovative products and through a diverse distribution system which we believe allows us to build significant share of market. Through our efficient low cost position which continues to improve with scale, we expect to continue to make investments to enhance our competitive position by investing in footprint expansion, driving value innovation with new products and devices, strengthening distribution, and increasing market awareness going forward. As you can see from the charts on the slide our strategy is working.

These two graphs provide a revealing snapshot of how we successfully penetrate markets despite existing competition. We have always said that multiple unlimited no contract offerings in a market increased the share of that segment and this is evidenced in the growth of prepaid market share from 17% to 22% in Las Vegas over the last four quarters.

Moving to the chart on the right. Since launching in Las Vegas in mid second quarter 2008, against other unlimited only competitors, Leap has quickly added customers and has ended the year with greater than 4% penetration. This chart also shows that as Leap has gained share within the market and surpassed the look-alike competitors, this share gain was incremental to the overall prepaid market share as our share gain paralleled that of the overall prepaid market share growth. This again supports our belief that multiple unlimited competitors actually increase the size of the prepaid segment in a market.

Moving to churn performance, fourth quarter consolidated churn was 3.8%. Churn in the company's existing markets continues to be a good story, achieving 3.7%, an improvement from 4.2% for the same quarter a year ago. This year-over-year decrease in churn reflects the success of the company's coverage enhancement activities in its existing markets and the company's market incentive activities driving a higher level of customer reactivation. Similar to what was experienced in the prior two quarters of 2008, yielding a full year improvement of churn from 4.3% to 4.0%. Total company churn in fourth quarter of 2008 is higher compared to the existing business due to the early tenure effects from the Auction 66 markets, similar to what we saw after the launch of Auction 58 markets.

Looking forward in 2009, consolidated churn will benefit from the initial low churn of newly launched markets through mid 2009, but will lead to higher churn after rapid customer growth, reducing the average tenure which will lead to higher churn in the second half of 2009.

Turning to average revenue per user performance, fourth quarter consolidated ARPU declined \$0.51 to \$42.44 on a sequential basis. This decrease reflects the success of our Cricket broadband service and market expansion activities which accounted for more than half of the decline while the seasonal trends in customer activity in our existing business accounted for the remainder. Year-over-year ARPU in our existing markets declined by 5% to a level of \$43.23. This result has been driven by two primary reasons -- lower purchases of additional add-on services which has recently been offset by the introduction of the premium extended coverage roaming feature that we have added to rate plans above \$50, and the year-over-year growth in customer reactivations which has improved churn, as mentioned previously, and customer lifetime value, but moderately reduces ARPU.

Looking ahead we expect first quarter 2009 consolidated ARPU to reflect existing market voice ARPU that is comparable to the prior quarter, improvement in our expansion markets as they mature and a continuing dampening effect on ARPU as our Cricket broadband service customer base continues to grow. We expect the Cricket broadband service to continue in the current ARPU range of the mid to high \$30.

Turning to cost management, CPGA in the fourth quarter came in at \$182 reflecting \$167 of CPGA in the existing business and a new initiative incremental spend of \$15. Our fourth quarter new initiative spend reflects 2008 launch costs related to new market expansion and to the launch of more than 30 million new Cricket broadband service covered POPs in our existing markets. Although the year-over-year CPGA increased by 2.2%, it was completely driven by the increase in new initiative spending partially offset by the year-over-year decrease of existing business acquisition costs. We expect the first quarter 2009 existing market CPGA to be in line with the prior quarter, while we expect new initiative incremental CPGA costs to increase slightly to approximately \$20, driven primarily by costs associated with the launch of Chicago and Philadelphia this quarter.

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Total company CCU was \$20.55, a decline of 2.1% for the fourth quarter of 2008 compared to the same quarter a year ago. More importantly, however, our existing market CCU declined by approximately 12%, to \$18.42 in the fourth quarter of 2008, showing a \$2.58 improvement year-over-year, even as we absorb the cost of footprint enhancement activities within our existing markets. The new initiative spend of \$2.13 per user reflects costs associated with new market development in our Cricket broadband service expansion. We expect first quarter 2009 consolidated CCU to be in the low \$20 range which reflects taking advantage of the growing benefits of scale and our existing business offsetting the cost of launching new markets.

To continue to improve profitability, as Walter mentioned earlier, the Company has embarked on several cost reduction initiatives. We have commenced a strategic sourcing review of all supplier spend. We're in the process of deploying and end to end supply chain process for managing handset devices and implementing customer process improvements to further improve our customer satisfaction and to reduce the need for service.

Finally on slide the 21, as our business continues to deliver growth, our profit margins are also improving due to the aggressive management of all of the relevant cost metrics of our business described in the previous slides. As we have improved CCU through scale and cost initiatives, and improved both churn and CPGA, thus driving a lower churn adjusted CPGA, we have counterbalanced and more than offset the change in ARPU while continuing to accelerate subscriber growth. As a result, in the existing markets on a subscriber basis, fourth quarter 2008 calculated contribution per user increased by \$1.54, or approximately a 9% improvement over the fourth quarter of 2007. Our culture is to continuously engage in cost reduction initiatives to further improve our cost position and thus increase our profitability.

I would now like to hand the call back over to Doug to discuss our growth initiatives.

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

Thank you, Al and Walter. In mid 2007, we laid out a three-part core strategy that included enhancing the performance and competitive position of our existing operations, introducing higher speed data products and the rollout of the Auction 66 markets over the ensuing next three years. Today we are pleased to share not only our future plans relative to our strategy but our results which demonstrate that each of these elements is working and working well. Also, as I mentioned in my opening comments, our visibility into our future performance continues to improve.

Let me share our results and outlook beginning with our existing business operations. For some time we've discussed that our older markets had increased growth potential available. If you look on the chart at the top of Slide 23 what you will see is markets that have been in operation since the end of 2005. Beginning in mid-2007 we announced a series of growth initiatives on that to add increased cell sites, direct store operations, improve our indirect channel performance, and then as those were completed increase our market level awareness.

The blue bar represents those markets that were untouched. The green bar which now totals a 1% year-over-year improvement in our -- or a 1% increase in penetration during 2008 represents those markets in our oldest of all of our markets that we have affected. If you look down at the market level at a specific market what you see on a individual enhanced market case study, that those effects really began to kick in the latter half of 2008 as you see the acceleration of year-over-year percent increase in gross add additions at the market level.

As we continue to pursue increased footprint enhancement activities through the year end 2010, we expect to add up to an additional 600 sites. As we look ahead, we expect our existing voice business to achieve in aggregate an 8% to 9% customer penetration by year end 2010.

Turning to data, our younger customer demographic adopts and uses value-based data services perhaps more than any other segment in the industry. Our mobile web usage is nearly two times the industry average. We have the highest percentage

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penetration of ring back tones in the US after launching them in mid year 2008. And now, at the end of third quarter of 2008, our mobile video launch is also off to a strong start.

We have invested in our networks. We have maintained current EBDO Rev A either operating or ready networks to provide us the opportunity for additional products. We expect our product launch to increase during 2009. This year we began expanding our email client. The introduction is underway and we expect to bring on more additional clients in the coming quarters. In the first half of 2009 we look forward to launching full track music downloads. By mid year we will be adding location-based services and we look forward to introducing an improved user interface more aggressively in the second half of 2009.

Our mobile data services drive our rate plan selection. By providing these initially as add-on services, we establish their value in the marketplace and then look forward to, in the coming quarters, integrating them into our rate plans as we drive higher rate plan selection and use this as a method of defending our ARPU. Driving value to our customers with mobile data services provides a compelling competitive differentiation. We do that through the latest networks we have operating at higher speeds and leading value rate plans.

Late last year, we introduced our PAYGo product, unlimited calling for the traditional prepaid space. This positions our unlimited Cricket brand in the traditional prepaid space. Our target on that is called out on the bar chart on the upper right of the slide, where you see our PAYGo target in the \$25 to \$34 ARPU range. We launched the trial in late third quarter of 2008 in markets including Cincinnati, Dayton, Houston, Savannah and Hilton Head with approximately 1,000 doors. Also, we launched 600 Wal-Mart stores across most markets. The product operates at about half the Cricket monthly voice plan usage.

We believe this product offering provides us an ability to defund our lower end rate plans with a lower cost product that allows customers to tailor their usage and the amount they spend in these difficult economic times to the available cash they have. We expect to follow a disciplined approach. We may add additional doors in the first half of 2009 depending on our results. With that said, we expect to near term operational and financial results to be minimal.

Both Al and Walter discussed the success we continue to see with our broadband service. Our broadband service, which includes unlimited access speeds comparable to DSL, operates with pricing of \$40 for those customers that are new to Cricket and \$35 for our existing voice customers. It operates with a universal device that works both in desk and laptop computers. We discussed last quarter, and we can now say we achieved volume pricing levels that will roll into our results as we move through the first quarter of 2009 with the latest device that we have just brought on board, a Rev A AWS USB device that we are pleased and will be introducing later this quarter.

During the fourth quarter, as we discussed, the rollout has been completed across our entire existing footprint, greater than 30 million POPs were rolled out in the fourth quarter. We intend to launch our new markets as we look ahead to our future launches with both voice and broadband. The mix continues to be moderately weighted towards new customers, and we see that equal customer adoption across all of our markets. As we mentioned, we believe this product will begin contributing positively to our results in the second half of '09 with an ARPU in the mid to high \$30 range, churn at or below our monthly voice product, and CPGA continuing to decline as we move through the year. As we look ahead to the long-term profitability of this product, we believe the incremental customer contribution will be comparable to our existing voice business as we move into 2010.

On an important note, during the fourth quarter, we introduced a trial with one economy and three additional groups to bring unlimited broadband to the underserved in Portland. We are pleased with the success of that initiative and we look forward to working with our partners in other markets as we look ahead.

Turning to our new market launches, as we said earlier we completed 11 million POPs through the year end 2008. We believe the costs are being managed appropriately, and in fact, as you see on the customer on the right, the customer uptake remains attractive as we compare the uptake in our Auction 66 markets to those that we saw in our Auction 58 markets. We are pleased that our launch strategy is working as we see higher penetration as we launch these new markets compared to those that we launched in 2006 and 2007.

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As we stated earlier, of the initial four markets, three are not at the break even OIBDA level at the market level and we look forward to the fourth market breaking even during the first quarter of 2009, all well within our expectations. The 2009 launches will include, as I said, the broader product family, our voice and mobile data services, the broadband product, and our PAYGo product pending the trial results. Our launches are on track. Chicago reached the substantial network completion point and the initial distribution rollout, as we announced previously on September 17th. We look forward to rolling out the rest of the distribution in the coming weeks and we are pleased with the additional results that we have seen. We also expect additional markets will launch by mid year with the next market anticipated to be Philadelphia.

The Company continues to have up to 16 million additional POPs that will be built potentially by year end 2010. We expect to make a decision should we win and how we will proceed with those in mid 2009. And the final pace in timing will depend on the business performance.

We now sale a broad footprint, as you can see, not only through our own markets, but through those other carriers that we work together to provide our premium extended coverage which we include in our \$50 and higher rate plans. The role of our coverage may evolve over time into other rate plans. Additionally, at the more local level we continued to build broader and broader regional footprints, as shown by our South Texas premium extended coverage footprint. We look forward to continuing to make progress with our upcoming launches on this.

Lastly, as we turn to where our future growth will go I want to take you back to the experience that we had between 2006 and 2008 in those markets that we built and launched during that time period. What you note is our total business, which included all of the markets then in operation performed in 2006 at about \$256 million. Those same markets today at year end operated at \$586 million, an increase of 129%. The business is well along its current investment cycle to accelerate future growth. As Walter discussed, the investments are now rapidly going behind us, even as we expect to launch up to 25 million addition covered POPs during mid 2009, and complete the rollout of the broadband POPs to nearly 92 million covered POPs by mid 2009.

The initial rollout increased the Company's total covered POPs by approximately 75%. The rollout that we are now going to complete by mid year expands our covered footprint by almost the identical amount. As we expect the negative OIBDA investment from these current initiatives to be completed in 2009 as we look ahead as these initiatives break even and move into 2010, we think there's substantial growth that is likely to occur. The foundation has been laid and we previously demonstrated the ability to quickly generate OIBDA from these new investments. As a result, we expect our three-year adjusted OIBDA figure to be 35% or greater for these markets excluding our broadband initiative.

As I mentioned at the beginning of the call, the Company has introduced fiscal year 2009 a longer term outlook. We expect our adjusted OIBDA including our existing markets, broadband initiative and our new market launches to be between \$560 million and \$640 million for fiscal year 2009. We expect our net customer additions to be greater than \$1.5 million, and our capital expenditures to be between \$625 million and \$725 million. And, as we discussed, we expect on a levered basis to be free cash flow break even by late in the second half of 2009.

Before we move to the question-and-answer session, let me be clear that we think we have the right product at the right place in the right time. Our products and networks are well positioned, our value leading voice and mobile data services, along with our mobile broadband success, clearly are gaining traction. We run these across our most upgraded networks with stronger and stronger footprint and data offerings. Our business is well positioned. We are expanding our role as a value-leader in the wireless space. Our customer growth opportunity is clear, and our business is resilient even in uncertain times. We have assembled the significant assets at the right time. We have adequate financial resources, an attractive spectrum portfolio, and the new markets we have launched are performing well.

And lastly, and perhaps most importantly, the team has been assembled. We have a strong team of dedicated employees, a management team that has a proven track record and we believe the experience to navigate through these uncertain times.

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With that I would like to open it up for question-and-answer.

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

Emitie, can you come back on the line and open the question and answer portion of the call?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Your first question comes from David Barden with Bank of America. Please proceed.

David Barden - BAS-ML - Analyst

Hey guys, thanks a lot for taking the question. I think as you guys probably know there's a lot of focus on ARPU in the business model, and it is, as people think about the longer term, potential in the model about how ARPU moves and where it steadies out. You talked about a number of issues that are influencing ARPU, the increased take rate of \$50 plans but lower take rate of \$45 plans, the introduction of broadband at the mid \$30 level. For the sake of just clarification it would be helpful if you could give us a sense as to how these forces will balance out through the course of '09.

And then lastly, just based on the commentary that you plan to be free cash flow break even around the end of '09, and you want to make decisions about how you are going to build out your next round of markets through 2010, is this basically a statement that you need to go to the Capital Markets some time between March and June and that will dictate how much you will be able to really build of the 15 million incremental POP opportunity? Thanks a lot.

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

AI you want to start with ARPU and I will work the second one.

AI Moschner - Leap Wireless International, Inc. - EVP, COO

David, thanks for your question. It was a good question. Let me just break your question apart in a couple of pieces because there are a lot of moving parts. There's really two things going on in our business today. Our voice business in our existing markets, as you mentioned we continually position ourselves from a competitive point of view. I don't know how long you've been following the Company but every year we do a refresh of our rate plans. We do it typically in April and we always assess where we are competitively, where we are with new product development, and integration, and we always try to balance ourselves in, first, positioning ourselves versus competition, and then also making sure that we have got value across the line.

And so the point is that we feel very comfortable today that the lower end of our rate plans are quite competitive, and you should expect to see us to continue to add more value in our higher price plans. An example of that is the PEC roaming function we talked about being added to \$50 and above. Doug mentioned about new products and functions coming, as an example, e-mail. There are others that we will continue to add to the higher rate plans to insure that the value proposition continues to be in balance.

Just to give you a little perspective, we have reflected that we expect ARPU in the next quarter to be comparable to last quarter's ARPU in that area. And we also do believe that as our expansion markets, Auction 66 markets, mature, that we see the ARPU improving in that area as well. The offset however, and this is a little bit of the complexity, is the mix between voice and data.

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And as our data products, the Cricket broadband service, continues to be successful and the mix of that subscriber base continues to grow, that will tend to offset the voice ARPU in our overall equation. And so we expect our existing markets to be comparable with the previous quarter. We expect improvement, somewhat improvement, in our new expansion markets with an offsetting effect as we continue to drive more broadband service customer growth.

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

And then Dave, regarding the additional covered POPs I don't think you should anticipate that we would be going to the capital markets as part of that decision process. We believe, should we go ahead with those, that we would consider doing that as something that would be self financed and believe we would have the resources on it. But I think given the uncertainty that we see out there, that a little bit of patience and care and just let things develop, let our business continue to evolve probably makes the most sense. We were pleased with the forward visibility that we are seeing but it would also be good from looking at going ahead with those additional markets to let that develop and consolidate itself. So I don't think that we are suggesting that there's a capital market event at this time.

David Barden - *BAS-ML - Analyst*

All right. Thanks, guys appreciate it.

Operator

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

Simon Flannery - *Morgan Stanley - Analyst*

Thank you very much. Good afternoon. A couple of quick ones. Can you talk about your leverage and your maturity structure. Whilst you may not need to raise that money to build out new markets, are you interested in terming out your structure and locking up some more longer term funding? And also you made some comments about hitting 4 million subscribers in early February. Could you talk about the current market conditions and how you are seeing competition from Boost Unlimited and some of the others? Thank you.

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

Simon, let me actually take the second part of your question first about our activity in the first quarter: We we are seeing reasonably good success in the quarter, and, as you mentioned we did hit 4 million subscribers early in February and we continue to benefit from the diversity of products that we have in giving us flexibility in the marketplace. So at this point, we are satisfied with the results we see.

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

Simon, with respect to the balance sheet, we talk about our position in terms of quality of it, in terms of our perspective on liquidity. And again, right now, as we look at the immediate needs we think the capital structure is sufficient. If there are some transactions or opportunities in front of us which are compelling from both a strategic and certainly from a financial perspective we will address those and we'll put the right capital structure together to facilitate those transactions. So the short answer is, consistent with how Doug answered, our ability to fund the incremental build beyond that of this year, it's the same answer.

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

And let me also add that on the customer adds, the existing business we see good consistent volumes, we see the new markets performing as we anticipated, and the broadband. So I think at this point we feel like we have a first quarter that appears to be coming together, as we would have anticipated even without the uncertain economic environment. So I think we are moving through the quarter fine.

Simon Flannery - Morgan Stanley - Analyst

Great. Thank you very much.

Operator

Your next question comes from the line of Ric Prentiss with Raymond James. Please proceed.

Ric Prentiss - Raymond James & Associates - Analyst

Thanks, good afternoon, guys. A couple of questions. Al, you mentioned how the ARPU could be affected obviously by the mix of the mobile broadband. Looking at '08, if my eyes haven't totally crossed after today, you did about 1/7 of your adds were mobile broadband versus voice. As you look at the at least 1.5 million in '09, how do you think that mix changes, and with Doug talking about the exciting mobile broadband offering? Does mix go up higher in '09 on mobile broadband?

Al Moschner - Leap Wireless International, Inc. - EVP, COO

Ric, good question. Yes, we do expect that mix to go up. As we have said in previous calls, we have guided that we would see about 0.5% growth per year for covered POP, and I think that that metric is a reasonable one. We have got markets that do a little better than that, others that don't quite do quite that well. But the mix of our business on the broadband service clearly will grow as that product continues to gain momentum and traction.

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

What's exciting about the broadband product from a financial standpoint is that we expect on the contribution margin per user, and I encourage people as they think about it, that the important aspect of that is it looks like it is going to approach voice users from a contribution standpoint. So as you look at it, encourage people not just to look at the ARPU line but to look at what we expect the cost lines will be, the little bit lower churn, the acquisition costs that we put together, and what you see is the opportunity to add customers to the business that over the longer term look a lot just like a voice customer. So, that is why we are comfortable to continue to pursue that.

Al Moschner - Leap Wireless International, Inc. - EVP, COO

And just as a final comment, also, it really fits very well into our overall business model and distribution scheme. So we are not having to do anything unique to support this product and it fits, again, very well and our customers are finding it is a very attractive product.

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Ric Prentiss - *Raymond James & Associates - Analyst*

And then on the guidance, thank you for providing '09 guidance, that's nice to get some numbers out there. As you look at giving guidance here in February, the economy obviously has a lot of uncertainty to it, competition has some uncertainty to it. How do you develop comfort now in giving this kind of guidance? Help us understand your thought process on giving us some actual numbers in this economy, and does that then imply maybe these are conservative numbers since there is a lot of uncertainty?

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

Well first off guidance is guidance. We would want to make sure that we have taken into effect all of the different uncertainty that we can before we would put that out, but that is the guidance numbers that we have.

The the second part of that is, we have been through an awful lot of competition over the years. I was thinking this morning when I looked back to the Auction 58 launches we had a whole bunch of competitive scenarios that we worked our way through those, and I think the business was quite successful as it moved its way through that. And one of the things we wanted to show today was, even if there is competition in this area, remember the pie is getting bigger. It's been something that I know Al and I have been trying to point out to people over the years, and now I thought we would put it out in this presentation in a conclusive standpoint so investors could get a little bit more comfort that I think they conclude that competition is just sharing the same pie when the evidence is quite different than that. So we feel comfortable with what we see competitively. We also feel comfortable that we are well positioned against that competitively.

So then you come down to the visibility and why we would go through that. I think people need to reflect, first off we showed you specific data on what the existing business initiatives are doing. We gave you examples, concrete examples, of the effect of the footprint. We didn't have that a year ago. We now see explicitly how the footprint affects the growth rate, as well as the distribution changes and such. We gave you specifics on the data products that we are going to roll out and how they're going to impact our products and encourage investors to reflect on how those allow us to have rate plan flexibility as we look ahead.

We are now well into the launch, after we launched markets in 2006 and 2007 and then paused for a year, and we are now well into that launch activity, and we now have results which we shared with you. We shared results not only about what our penetration curves are. By the way, those markets were competitive, as well. But we shared those results. We also shared the OIBDA breakeven, that of those initial four market launches, three of them were breakeven and the fourth was soon to be breakeven at this point. So we had increasing confidence in how the market rollouts are going to perform.

And then lastly, broadband was launched as a trial in 2007. We are now in our sixth quarter of operating this business, and you see management getting comfortable that we understand how it works and how it is likely to work, and so as a result of what we see, the real data we see inside our business, the fact that we first noted that there was a change in economic conditions when we released our third quarter 2007 results, if you go back and if investors will think about that, we are now in our sixth quarter on this, and we got ourselves to the point now where we thought we had a good idea how the business was going to perform, our new initiatives, and how it was going to perform in the economic environment that we can foresee at this point. So we chose to put '09 guidance out there.

Ric Prentiss - *Raymond James & Associates - Analyst*

We appreciate that visibility and the comfort you guys have and all of the things you have seen over the last few quarters. Thanks.

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Operator

Your next question comes from the line of Phillip Cusick with Macquarie. Please proceed.

Phillip Cusick - *Macquarie Research Equities - Analyst*

Hi, guys, thanks for taking the call.

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

Hi, Phil, how are you?

Phillip Cusick - *Macquarie Research Equities - Analyst*

I'm good. So, two quick housekeeping things. One on the shelf. Does that replace a shelf that's expired or is that new?

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

No, it is, it is new. And again, it goes back to really a function of timing, becoming qualified and the filing of the 10-K.

Phillip Cusick - *Macquarie Research Equities - Analyst*

Okay. Got it. Second of all, in the business outlook, I think you just have some language that's a little confusing here for me. But you say you expect to cover another 25 million additional POPs by the middle of '09. That's not including Chicago; right.

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

That would include Chicago. We put that as a, we have 11 million completed, and we had 25 million ahead. We did put it in the press release that it started on February 17th. But the Chicago is included in the 25 million.

Phillip Cusick - *Macquarie Research Equities - Analyst*

Okay. But there are 11 million that are not in Chicago that have been already covered.

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

That we have provided results for with our fourth quarter results.

Phillip Cusick - *Macquarie Research Equities - Analyst*

I see. Got it. It was just trying to --

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

Yes, I really appreciate it. We have got a lot of working our way through that and we are trying to keep what is separate, what's in what quarter from a results standpoint.

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Phillip Cusick - *Macquarie Research Equities - Analyst*

Got it. No problem. Then a real question. You mentioned a shift to more wire line porting. Can you talk about your porting in and out, any notable shifts in where your customers are coming from and even where they're going, if anybody has taken their number with them, that might give us an indication on what is going on in the economy. Thanks.

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

Well, Phil I am not sure that we actually said anything about wire line porting, but I am happy to comment on your question. We do annual surveys of our customers and we have publicly stated that the number of Cricket users that have Cricket as their only wire, or voice service I should say, exceeds 60%. That number continues to slightly grow every time we take the survey. And so I think that is a relatively good representation of where we are.

Vis-a-vis porting in and porting out, I think that moves around quite a bit. Part of the problem in the prepaid space is that if a customer comes from us from other prepaid carriers typically there's not a port that takes place. Those numbers are not usually moved. But obviously if a port in or out goes to a Tier 1 carrier we get visibility of that. As I say, it tends to be seasonal and it tends to move around based on promotions and offers that various carriers make throughout the year. So I am not sure there's any specifics that I can add to that reflection.

Phillip Cusick - *Macquarie Research Equities - Analyst*

Okay. So no shift in wire line relationships.

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

No we have been going up bit by bit for the last five or six years on the wire line disconnect, the pure no longer have a land line percentage. It is roughly 60%, 65%, about two-thirds of our customers. We won't have additional data on that until mid year. But we are already running a month, one of the highest in the industry, if not the highest in the industry on that. And again 90% of our customers use it as their primary phone. There may be a little bit of upward pressure on that as people work their way through that, from our perspective. We are quite a bit down the path already of people no longer having a land line phone.

Phillip Cusick - *Macquarie Research Equities - Analyst*

Got it. Great. Thanks, guys.

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

Thank, Phil.

Operator

Your next question is from the line of Kevin Roe, Roe Equity Research. Please proceed.

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Kevin Roe - *Roe Equity Research - Analyst*

I'd like to echo Ric's comments and thanks for the additional disclosure and guidance. But before my question I first want to express my sympathy to the LuVisa family and everyone at Leap that knew dean, he will be missed.

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

Thank you. And he will be missed. He was a fine man.

Kevin Roe - *Roe Equity Research - Analyst*

Two questions, first on broadband. You mentioned a little bit about your margin expectations. A little more color would be helpful. Do you believe that business longer term can reach voice margin levels meaning the 40% level you have discussed?

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

Yes, actually we do believe that. What we have focused on that is on the unit economics. So what we would call CCPU is where our focus has been on that. So we do believe that within ARPU, mid to high \$30 ranges as we continue to look at how that business will evolve. That during the course of this year it will break even and start contributing some significant margin, and then in 2010, it is our anticipation that the customer may not look identical but I think we believe, based on what we have now seen six quarters into operating this business, it will begin to look fairly similar to a voice customer on a margin generated at the unit level basis.

Kevin Roe - *Roe Equity Research - Analyst*

Okay. And a quick follow up. On a lot of calls people are talking about the uptakes of smart phones if continues to increase and put pressure on handset subsidies What's your expectation for handset subsidies trending in 2009 given those higher demands for smart phones?

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

We will see. What we are having a heyday with right now is clearly keyboard. We have just continued to enrichen that mix up. We started back now where we are several quarters into it but are now going to be running three different Qwerty keyboards through the first half of this year. We have seen great uptake. We saw good response to those early in the first quarter. And we would expect we are going to continue to see a lot of uptake on those.

Whether we continue to looks at smart phones, at this point we don't have one we are announcing but we are going to continue to look at that. But in the near term, what we are seeing on these Qwerty keyboard phones has been good.

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

Let me address your question about subsidy. We continue to work very hard to reduce the cost of our overall equation, and I think you heard both Walter and I talk about that we have just kicked off a supply chain and procurement initiative here at Leap where we are really very aggressively going after costs across the board, and specifically on devices. We look at all sorts of offshore as well as branded alternatives to insure that we have a good balance of device at all levels, just to, again, echo what Doug said. Emailed based Qwerty devices are really the ones that our customers are telling us they'd like to see. And of course the better position they are in price the more velocity we can drive, and so cost is an important piece of that, and we expect

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that we will keep that in balance so that the subsidy stays within the realm of what our experience of that has indicate in the past.

Kevin Roe - *Roe Equity Research - Analyst*

That's helpful. Thank you.

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

And thank all of you for time. Amy?

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

Thanks 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 fourth quarter results or need additional clarification, please feel free to contact us directly at 858-882-6084. Thanks again and have a great evening.

Operator

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

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