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Nextel's Analysis is Internally Inconsistent and At Odds with Its Prior Statements

Nextel's Numbers Don't Add Up
Nextel's bottom line is that its "contributions" of spectrum would be valued at slightly more than $4.0 billion and its "cash contributions" would be $1.4 billion, but that it would be receiving spectrum at 1.9 GHz worth only $3.33 billion – a net loss of over $2 billion (See Slide 1, Attachment A). Specifically, Nextel values its existing spectrum versus its desired spectrum in the following "creative" way:

2.5 MHz at 800 MHz -	$1.44 billion	*vs.*	2.5 MHz at 1.9 GHz -	$0.83 billion
4.0 MHz at 900 MHz -	$1.64 billion	*vs.*	4.0 MHz at 1.9 GHz -	$1.33 billion
4.0 MHz at 700 MHz -	$0.35 billion	*vs.*	4.0 MHz at 1.9 GHz -	$1.33 billion
861-863 limitations -	$0.57 billion		1.9 GHz Clearing Costs -	($165 million)
Total	$4.00 billion		Total	$3.33 billion

Nextel's spectrum valuation math is based on fundamentally flawed assumptions:

- Nextel's encumbered, non-contiguous, non-nationwide 800 MHz spectrum (on per MHz-Pop basis) is worth over 60% more than relatively unencumbered, contiguous 1.9 GHz spectrum that is licensed nationwide.
- Nextel's 900 MHz spectrum, that it claims it acquired for $800 million through auction and secondary markets, has more than doubled in value and exceeds the value of 1.9 GHz spectrum (on per MHz-Pop basis).
- Nextel's 700 MHz spectrum that is barred from cellular use and set up as a guard band to protect public safety should be accepted and credited at its original purchase price despite the fact that recent 700 MHz auctions have demonstrated that the current value of the spectrum is substantially less.

If Nextel's spectrum claims are taken at face value -- i.e., if Nextel valued 1.9 GHz spectrum at the same per megahertz rate as its 800 MHz spectrum -- the 10 MHz of 1.9 GHz spectrum would be worth $5.76 billion rather than the $3.335 billion estimated in its ex parte (See Slide 2, Attachment A).

Nextel then credits itself with $1.4 billion in costs (filters - $150 million; 800 MHz "restrictions" - $575 million; relocation of 800 MHz users - $850 million; and retuning - $400 million) even though many of these costs are inherent in Nextel's own ability to use this spectrum. A striking feature of Nextel's math is a zealous and aggressive tabulation of every "contribution" accompanied by total silence on any resulting benefits accruing to it from 800 MHz rebanding.

Nextel makes the incredible argument that 10 MHz of spectrum available on a contiguous nationwide basis at 1.9 GHz is substantially less valuable than its “contributed” spectrum. Nextel argues that interleaved, non-nationwide 800 MHz spectrum is over 60 percent more valuable than comparable contiguous blocks at 1.9 GHz. Nextel also argues that its contributed 10 MHz of spectrum spread across three frequency bands is also more valuable than comparable amounts of contiguous 1.9 GHz spectrum. Such leaps of logic ignore several salient facts about Nextel’s “contributed” spectrum holdings (See Slide 1, Attachment A):

- Nextel’s spectrum is spread over three spectrum bands (700 MHz, 800 MHz & 900 MHz) and held in small blocks (4 MHz, 2.5 MHz & 4 MHz) that inherently limit its utility for providing commercial mobile radio services, particularly high-speed data services.

- Some of the three spectrum holdings (700 MHz, 800 MHz and 900 MHz) are non-nationwide.

- Some of Nextel’s “contributed” spectrum (800 MHz and 900 MHz) is interleaved with other users and site licensed.

- Some of Nextel’s “contributed” spectrum (700 MHz) is prohibited from being used for cellular infrastructure purposes and serves as a guard band established to protect public safety. Public safety use of Nextel’s 700 MHz licenses would require an act of Congress, given that the 700 MHz band is allocated by statute for commercial use.

    - All of the licenses that Nextel would contribute are encumbered with grandfathered spectrum uses that, except for analog broadcast television licensees in the 700 MHz band, are not under any FCC mandate to relocate to other frequencies.

Independent financial analysts agree (contrary to Nextel’s claims) that contiguous 1.9 GHz spectrum is significantly more – not less – valuable than the proposed “contributed” spectrum and that Nextel would receive a substantial windfall rather than a shortfall:

- “Nextel is trying to swap spectrum licenses to gain a more contiguous swath of the 800 MHz band and gain a chunk of valuable spectrum in the 1.9 GHz band. If successful, the swap could lower its capital spending, reduce caller interference, and make it a more attractive acquisition target.” “[U]nless regulators agree to the proposed swap . . . . Nextel’s spectrum portfolio is not that valuable to other carriers because it resides in noncontiguous frequency bands.” Morningstar Analyst Report (February 25, 2004).

- “[W]e believe that the net benefit to Nextel will fall into the $1.5 billion to $3.2 billion range or approximately $1.31 to $2.77 per share.” “The challenge is assigning fair value to spectrum that is non-contiguous, which limits most commercial technologies from using their frequencies." Legg Mason, "Logjam Breaks on FCC Consideration of Nextel Spectrum" (March 10, 2004).

Nextel *itself* has previously argued (contrary to its current claim) that its 800 MHz spectrum is less valuable than PCS spectrum and that the lack of contiguous spectrum was a major disadvantage:

- "The Commission already recognized that this fragmented SMR spectrum is 'not currently equivalent to cellular or broadband PCS spectrum.' Because the channels are encumbered, non-contiguous and assigned on a site-by-site basis, an SMR licensee faces more obstacles than its competitors in configuring a wide area system." Reply Comments of Nextel Communications, Inc., WT Docket No. 98-205, at page 4, footnotes omitted.

- "[T]he Commission in 2001 still cannot equate SMR channels with exclusive use, contiguous cellular or PCS channels available throughout entire Major Trading Areas ("MTA"), Basic Trading Areas ("BTA") or Metropolitan Statistical Areas ("MSA")." Comments of Nextel Communications, Inc., WT Docket No. 01-14, at page 3.

Nextel attempts to claim its exchange of 8.5 MHz of interleaved spectrum for 6 MHz of contiguous spectrum as a major cost ($1.44 billion in ex parte) – when in fact it is a major benefit. Embedded in Nextel's "new math" for valuing its spectrum "contributions" is the assumption that rebanding at 800 MHz provides no benefit to Nextel and, instead, constitutes a major cost. These claims ignore several obvious points:

- Rebanding, as proposed, results in Nextel holding a new contiguous 6 MHz block of spectrum on an exclusive, nationwide basis that adjoins Nextel's pre-existing 10 MHz of spectrum to create a contiguous nationwide block of 16 MHz.

  - Kane Reece values as a net benefit of $2.3 billion the improvements in Nextel's 800 MHz holdings from a contiguous 6 MHz block in exchange for the 8.5 MHz interleaved spectrum. Nextel, in contrast, treats the rebanding as a loss of $1.44 billion without any recognition of the resulting improvements for its retained 800 MHz licenses.

Nextel counts its $850 million funding commitment well before any money is paid to displaced public safety or private wireless users (See Slide 4, Attachment A).
In effect, Nextel proceeds as though a promise to pay $850 million in the future should be treated as though cash has changed hands. To the contrary, its "commitment" is prospective in nature and determined by procedures, terms and conditions acceptable to Nextel. Thus, it is premature to fully credit Nextel now for an $850 million contribution based upon payment of funds that it may make at some indeterminate time in the future.

Nextel claims its plan causes a $2 billion company loss, but its SEC filings and independent analysts' reports suggest otherwise. Nextel represents that its proposal will result in a $2 billion loss to the company. However, its March 11, 2004, SEC filing omits any disclosure to shareholders of such an adverse development. Indeed, it is counter intuitive that Nextel would propose a solution that would result in reduced value for its shareholders without disclosing it to the SEC. In contrast, independent industry analysts have reacted as though the proposal would confer a windfall on Nextel. The silence in the SEC filing and the buoyant reaction of the market analysts speak volumes about the credibility of Nextel's representations to the Commission.

Nextel proposal is not legal. Last, but not least, the Nextel ex parte ignores an obvious fatal flaw that undermines the legal sustainability of the plan. Whether the spectrum valuations are right or wrong, the Commission simply does not have the legal authority to trade new spectrum for used spectrum and future cash considerations. (See Ex parte presentation of Cellular Telecommunications & Internet Association, WT Docket No. 02-55, at 8-9 (Dec. 4, 2003)). It even more clearly lacks the authority to allow a company to obtain more spectrum than it could possibly be replacing, in exchange for any kind of financial contribution. Congress, in enacting the competitive bidding provisions of the Communications Act, made very clear that competing claims for new spectrum should be resolved through competitive bidding procedures and not through one-on-one financial haggling conducted between the government and a private party.

In view of the foregoing and as confirmed in the attached slide presentations, Nextel's numbers do not add up. The only consistency in its "New Math" approach is an inflating of the value of its "contributions" and downgrading of the value of what it's receiving. In so doing, Nextel provides a compelling if unintended answer to its question of "what windfall?" The windfall to Nextel is obvious from any reasonable reading of the facts and any consistent application of basic spectrum valuation principles.

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