



Valuation, Management & Technical Consulting

April 8, 2004

Via Email

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Dear Messrs. Brittingham & Bareham:

Kane Reece Associates, Inc. ("Kane Reece") has completed an analysis of the study incorporated in Nextel Communications, Inc.'s ("Nextel") filing for the Federal Communications Commission's ("FCC") consideration in WT Docket 02-55, *Improving Public Safety Communications in the 800 MHz Band*. Nextel's filing, dated March 18, 2004, attaches the study, *Economic Analysis of the Kane Reece Spectrum Valuation* by Dr. Gregory L. Rosston, Deputy Director of the Stanford Institute for Economic Policy Research (to be referred to as "Rosston" or "Rosston Report"). Nextel alleges that the Rosston Report finds that Kane Reece's "conclusions are not based on sound economics and provide no basis to determine the relative value of different spectrum positions or to validate any 'windfall' claims".

The Rosston Report refers to an Appraisal prepared by Kane Reece that assessed the fair market value as of December 31, 2002 of Nextel's current spectrum holdings as well as the value of spectrum that Nextel would acquire under its proposed "Consensus Plan." This Appraisal, which was included in Verizon Wireless' Ex Parte submission of October 27, 2003, concludes, "If the Consensus Plan were adopted, the value of Nextel's spectrum holdings would increase by \$7.2 billion." Rosston alleges certain errors in Kane Reece's methodology, and without any attempt to support his allegations, concludes that the Kane Reece Appraisal reports are flawed. Pursuant to your request, we have prepared the attached assessment of the Rosston Report.

Kane Reece stands by our conclusion that Nextel will enjoy at least a \$7.2 billion increase in the value of its spectrum holdings were the FCC to approve the

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Consensus Plan. The methodology we employed in our Appraisal is consistent with standard investment banking industry practice and with Uniform Standards of Professional Appraisal Practice (“USPAP”). The valuations we reached in our Appraisal are accurate representations of the fair market value of the 700, 800 and 900 MHz spectrum that Nextel proposes to give up and the 800 MHz and 1.9 GHz spectrum that Nextel proposes to receive under the Consensus Plan. The attached report explains why each of Rosston’s criticisms of the Kane Reece Study are invalid and inconsistent with industry practice.

By contrast, the Rosston Report is not consistent with standard investment banking industry practice or with USPAP. It incorporates numerous flawed assumptions, invalid application of financial and economic theory, and logical inconsistencies. For example:

- Throughout his report, Rosston focuses on an investor value definition for the spectrum Nextel proposes to give up while employing an erroneous methodology for determining the fair market value for the spectrum it proposes to receive. This is inconsistent and incorrect economic and valuation practice.
- Rosston incorrectly assumes that the Kane Reece appraisal windfall conclusion is dependent upon Nextel deploying CDMA Technology in its 800 MHz band. Kane Reece has not valued the Nextel 800 MHz band spectrum specifically to Nextel but to the universe of potential acquirers, i.e. the wireless industry. Additionally, Kane Reece has not assumed that Nextel would change to CDMA Technology nor is our FMV windfall conclusion dependent on Nextel switching to CDMA. Also, we have not conducted any valuation of Nextel’s existing 10 MHz of upper 800 MHz bandwidth.
- Rosston alleges that Kane Reece did not take into account wireless infrastructure capital costs associated with any transition to new technology. This is also incorrect. The wireless industry has been virtually in a continuous transition to new technologies and several transmission modes currently prevail including CDMA, TDMA, GSM, and iDEN. Historically, technology transition has been implemented on a phased approach over several years and the costs to do so are already reflected in the forecasted capital expenditures employed in the Industry Analyst consensus cash flow forecasts contained in our report and are also implicit in Wall Street’s pricing of the various carriers’ equity.

The flaws and inconsistencies in the Rosston Report confirm that Rosston has no valuation expertise, continually mixes up investor value with fair market value,

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incorrectly attributes future generation tangible assets with current intangible license value and incorrectly implies that Kane Reece's analysis assumes that Nextel must switch to CDMA Technology. Rosston implies (without any documentation, calculations or other support) that if the Consensus Plan is adopted, **Nextel would lose money in the value of its spectrum assets**. As we indicated in our comments pertaining to the Sun Fire Report, we find it hard to believe that Nextel would be advocating the Consensus Plan if it really believed that the Plan would harm the value of its spectrum assets.

We note that Nextel's recent filing¹ with the FCC indicates a net cost to Nextel, under the Consensus Plan, of \$2.1 billion. We question Nextel's belief in this cost since Nextel's recently filed 10-K with the SEC does not describe such an obligation or liability which is certainly material. As described in our previous Appraisal, Nextel will clearly gain a considerable windfall if the Plan is adopted.

Respectfully Submitted,

Kane Reece Associates, Inc

KANE REECE ASSOCIATES INC.

¹ Nextel Ex Parte Presentation, re: WT Docket No. 02-55, dated March 15, 2004

Response To: Nextel's Report Prepared by Dr. Rosston, "Economic Analysis of the Kane Reece Spectrum Valuation"

Summary

Rosston's report attempts to discredit the Kane Reece appraisal reports that have been filed by Verizon Wireless in this proceeding by claiming that there is no reliable evidence of a windfall for Nextel under the Consensus Plan. Rosston's claim is totally untrue.

The Kane Reece report explains clearly and in great detail the methodology we used in reaching our value conclusions and contrary to Rosston, cited independent and recognized authorities as the framework supporting our analyses. Furthermore, while Rosston claims that our conclusions are not based on 'sound economics', he does not provide any citations or explanations as to what he considers to be 'sound economics' and what alleged "violations" exist. Adding insult to injury, Rosston states, "My report does not attempt to value spectrum".

Rosston alleges two major flaws that he believes "make the Kane Reece report useless for the Commission's consideration of possible windfalls from the Consensus Plan". We have identified within Rosston's alleged two flaws, four points of contention, all of which are inter-related and can be dismissed because he uses the wrong valuation definition and uses it inconsistently to make his points. He erroneously focuses on investor value or value to Nextel when the proper valuation premise should be fair market value. FMV provides a common basis of evaluation and reflects the value to the US Treasury or ultimately the tax payer. Rosston's analysis is flawed in the following respects:

- Rosston incorrectly uses an investor value definition versus fair market value as used by Kane Reece.
- Rosston alleges that Nextel's transition costs should be reflected in the Kane Reece Valuation. They should not. They are investor value specific and represent normal capital expenditures required to fund technology transitions and are incorporated in the Kane Reece appraisal.

- Rosston alleges that the Kane Reece value to Nextel for 800 MHz band spectrum depends on contiguous spectrum and Nextel's deployment of CDMA. It does not. Kane Reece did not conduct an investor value analysis and thus did not make any assumptions regarding Nextel's technology deployment.
- Rosston alleges that the variability of the individual carrier specific license values (Investor Value) make the average license value per MHz unreliable. His conclusion is flawed. Kane Reece calculated a weighted average of the industry's license value based on a required fair market value analysis.

Rosston's Use of Investor Value vs. FMV Definition

Kane Reece conducted a fair market value (FMV) analysis consistent with standard valuation and investment banking industry practice. This analysis appraised the value of the spectrum that Nextel would give up under the Consensus Plan and compared it to the value of the spectrum that it would receive. In conducting this analysis, Kane Reece assessed each spectrum band's potential for supporting wireless voice traffic. The more traffic that a segment of spectrum will support, the more a user will be willing to pay for it. We determined that the lower 800 MHz and the 900 MHz frequencies that Nextel proposes to surrender had significantly less traffic capacity than an equivalent bandwidth of contiguous, unencumbered spectrum that could be put to its highest and best use. This is in conformance with the FMV definition context of "any willing buyer and any willing seller", and **not** to a specific carrier or buyer (known as "investor value"). Consequently, we determined that the fair market value of these frequencies was significantly lower than the fair market value of the contiguous, unencumbered, nationwide frequencies Nextel is seeking. **Importantly, the methodology we used to calculate license value is consistent with Nextel's own calculations of its license value in its 10K filing to the SEC.**²

² Valuation and recoverability of intangible assets...Intangible assets with indefinite useful lives consist of our FCC licenses and goodwill... We concluded that there was no impairment as the fair values of these intangible assets were greater than their carrying values. Using a residual value approach, we measured the fair value of our 800 MHz and 900 MHz licenses by deducting the fair values of our domestic net assets, other than these FCC licenses, from our domestic reporting units fair value, which was determined using a discounted cash flow analysis. The analysis was based on our long-term cash flow projections, discounted at our corporate weighted average cost of capital. [Pg 43 of Nextel 2002 10K filing]

It is important to note that our report did not draw any conclusions whatsoever concerning the value of spectrum to Nextel specifically. Such conclusions would have been a determination of investor value. Our value conclusions were determined on a fair market value basis.

Our specific task was to analyze the impact that the Consensus Plan would have on Nextel's spectrum holdings from the Wireless industry or ultimately the U.S. Treasury perspective. Simply put, Nextel is gaining two extremely valuable parcels of spectrum in the 800 MHz band and 1.9 GHz band, that if put up for auction would likely realize more than \$8 billion³ to the government. To attempt to justify this new unencumbered, unimpaired nationwide spectrum, Nextel offers "payment" in the form of spectrum that is entirely of opposite attributes and for which the marketplace would not be willing to pay anywhere near the value of the spectrum being "gifted" to Nextel.

We recognize the need for the FCC to accomplish the realignment of the 800 band and solve the Public Safety issues. However, the wireless industry and ultimately the general public or tax payers should not have to subsidize Nextel to accomplish this. The interference problems are largely caused by Nextel. As Nextel is the beneficiary of the proposed new spectrum, it would appear logical for Nextel to pay for it.

Referring to the Kane Reece valuation, Rosston uses an investor value definition comparison to state, "This methodology can also show that Nextel would suffer a net loss of value in the spectrum exchange proposed by the Consensus Plan because of the high value the methodology calculates for 800 MHz spectrum, as compared to 1.9 GHz spectrum."⁴ Rosston states that the Kane Reece methodology can show that Nextel suffers a net loss of value, but he does not show it. This can only be explained by the fact that he can't and therefore he makes no attempt to do so. Even the Sun Fire report at least attempted, although erroneously, to imply a loss. The Kane Reece response to Sun Fire clearly demonstrated Sun Fire to be wrong.

³ Kane Reece Appraisal Report, Pg. 42

⁴ Page 11 of the Rosston Report

Variability of Carrier Specific License Values

Rosston alleges that Nextel's 800 MHz spectrum is worth substantially more than 1.9 GHz spectrum when using data at the firm level rather than using wireless industry averages, and implies that Kane Reece indicates license assets are similar and should not have divergent values.⁵ This allegation is simply not true on several counts:

- Kane Reece did not use a simple industry average value for the license FMV per MHz pop. We clearly stated our value was based on the aggregate or cumulative license value divided by the cumulative MHz pops. This results in a weighted average so that many of the small regional wireless carriers values do not materially affect the overall industry FMV for spectrum
- While the industry spectrum licenses may use the same medium, Kane Reece never claimed that the value among carriers was or should be the same. License value variation is due to several factors including certain companies being in various stages of transitioning to more efficient technologies, variability in network coverage, as well as the financial and marketing efficiencies of individual operators. Clearly, the variability among carriers' license values is expected and explainable. As of the valuation date, certain companies, in particular several of the Sprint PCS affiliates, reported financial problems and were in various stages of restructuring. Other companies benefited from Wall Street's recognition of strong marketing skills, customer growth, relatively high ARPU's and/or EBITDA. The license value, derived under the proper residual approach, reflects the geography and demographics of the individual carrier's respective licensed markets, and as previously noted, the perceptions by Wall Street of future financial and operational performance expectations for each respective carrier.
- License value is attributable to the cash flow generated by future customers (both new and replacement customers), whereas customer relationship value is derived from Cash flow associated with existing customers (which experience annual churn) as of the valuation date. An analysis of individual carrier license value compared to their current EBITDA reveals a strong relationship and explain differences in individual carrier license values.
- Rosston's comment that Nextel's 800 MHz spectrum is worth substantially more than 1.9 GHz spectrum points out Rosston's lack of experience in the valuation field. We do not dispute that Nextel's company specific spectrum value is above the industry weighted average but this an investor value, not fair market value. Rosston intertwines these valuation definitions throughout his report. FMV is the standard of value that the Kane Reece report adheres to. The FMV of

⁵ Page 3 of Rosston Report.

the spectrum that Nextel proposes to give up at 800 MHz is clearly below the industry weighted average.

- Rosston claims that his “report does not attempt to value spectrum”, but goes on to state, “the best means to value any asset, including spectrum, is through a market transaction”⁶. Rosston fails to even mention the market approach to value anywhere else in his report. The market approach to value is an integral part of the FMV methodology employed in our report. The three best market indications of spectrum value would be the Cingular/Nextwave and Verizon/Northcoast deals (which support our value conclusions and were cited in our report) along with the announced Cingular purchase of AT&T Wireless which produces a somewhat higher value of \$2.34 per MHz pop⁷ (it is a current value indication compared to our year-end 2002 valuation). When an appraiser employs the income and market approaches to value and obtains similar results, as were shown in our report, there can be a high degree of confidence in the results.

Transition Costs

Rosston alleges that Kane Reece has not considered economic considerations, which he defines as transition costs associated with Nextel’s move to a different technology.

Contrary to Rosston’s statements:

- a) The Kane Reece report does not assume that Nextel switches its entire network to CDMA or that it employs anything other than its current iDEN network.
- b) Transition capital expenditures are implicit in every carriers’ valuation including Nextel which has publicly stated it is exploring CDMA with Qualcomm and data services using OFDM Technology with Flarion.⁸

The costs of employing a new technology are a normal capital expenditure for all carriers who, in order to remain competitive, must continually upgrade their networks. An historic example of this is the industry’s transition from analog to digital transmission.

⁶ Page 2 of Rosston Report

⁷ Verizon ExParte Filing dated March 2, 2004.

⁸ Valuation and recoverability of long-lived assets. We periodically review the estimated useful lives and salvage value of these assets and make adjustments to those estates after considering historical experience and capacity requirements, consulting with the vendor, and assessing new product and market demands... While the remaining useful lives for iDEN network equipment and software represent our best estimate at this time, we recognize that at some point in the future we may migrate to a next generation technology, which could impact the lives of our iDEN network equipment and software. [Pg. 44 of Nextel 2003 10 K filing.]

These future transition costs are imbedded in the capital expenditure forecasts for all of the carriers and implicit in the stock market's valuation of the respective carriers' equity. The stock market's perception of the various carrier's future operating performance and the need to fund "transition costs" is inherently one of the reasons that the carriers' BEV values and subsequent license spectrum values vary.

Transition costs are included in the fixed assets and capital forecasts of the operator and are not part of license value. As previously discussed, Rosston is confusing fair market value and investor value. Any purchaser of spectrum will incur costs to serve its customers utilizing the new spectrum whether it uses its current technology or introduces a new technology to its network. (Our model of a start-up operation at 1.9 GHz included such costs.) Capital costs specific to Nextel, whether to deploy iDEN or CDMA, are an investor value consideration and not a fair market value consideration. Our determination that the Consensus Plan provides a windfall to Nextel is based on examining the spectrum characteristics and coverage of the frequency segments that Nextel proposes to surrender and those it proposes to be granted less payments to other 800 MHz spectrum users.

Given the infrastructure in the wireless industry, we believe it is highly unlikely that a carrier would completely switch from one technology to another. We believe that, as has already happened, a carrier would introduce a new technology on a gradual basis (several markets at a time and/or certain portions of frequency spectrum) and phase out the older technology over time. The Commission's requirement for cellular carriers to maintain analog capacity for several more years is an example of this evolutionary process. Another example is the current Cingular/AT&T wireless joint build-out of a GSM overlay to their TDMA networks. The financial reporting aspect of this network transition process is that the old fixed assets are retired and are replaced on the balance sheet by the new assets as they become operational. We also note that the wireless industry's tangible assets are typically depreciated for tax purposes (cash flow) over a relatively short five to seven year period under an accelerated MACRS method. Thus, the turnover of specific technology equipment is accomplished rather quickly. As

can be seen in the Kane Reece appraisal report, Nextel's capital expenditures will effectively replace its net plant and equipment within 5 years.

Contiguous Spectrum and CDMA Deployment

The Rosston report asserts that the incremental value of contiguous spectrum to Nextel is probably relatively small. Again, Rosston is confusing investor value and fair market value. We assert that contiguous spectrum can support more traffic than non-contiguous spectrum and therefore, on a fair market value basis, contiguous spectrum has a greater value than non-contiguous spectrum. Simply put, contiguous spectrum allows a licensee to deploy more advanced, and more efficient wireless technology and this has a greater value than non-contiguous spectrum. It does not matter what or how a licensee deploys the technology. For example, one may draw the analogy between spectrum and real estate. Consider a real estate parcel in New York City. The FMV of the land that may have a single story run-down building on it but is surrounded by hi-rise apartment buildings does not mean the land's value is limited because it is not making the highest and best use of the land. The FMV of the parcel should not be based upon its current use when the FMV to a potential developer could be "orders of magnitude more".

Expanding on this concept, consider the above run-down parcel being located in the middle of two corner lots owned by a developer. The FMV of the lot which is contiguous to the corner lots presents the situation where the sum is worth more than the parts. A developer could put up a bigger apartment complex with higher cash flows with contiguous property than without. This simple example applies to contiguous, non-interleaved spectrum as well.

Rosston tries to draw a comparison between cellular and PCS networks operating with frequency blocks of a minimum of 5 MHz, with that of Nextel which operates on 12.5 KHz and 25 KHz channels. Here he asserts that other wireless companies have used technology to straddle non-contiguous spectrum. The comparison of networks with bandwidth that can support wideband technologies and hundreds of simultaneous voice

conversations to a network that can only support a maximum of six voice channels and can't support wideband technology is ludicrous.

We acknowledge that “advances in technology” allowed Nextel to minimize the disadvantages of non-contiguous spectrum in the 800 MHz band⁹. It is important to note that Rosston also acknowledges that there are, in fact, disadvantages of non-contiguous spectrum in the 800 MHz band. It might have been useful to the Commission if Rosston had enumerated the disadvantages he perceives and detailed their impact on spectrum usage. While Nextel, may have mitigated some of these disadvantages, such disadvantages still exist. However, other potential acquirers of this spectrum would recognize its limitations in deploying wideband technology and would consider these disadvantages when valuing this spectrum.

We do not state that iDEN is inferior technology and clearly note that Nextel has employed its spectrum efficiently to-date. We do question whether Nextel can continue to sustain its historical operational and financial performance without the addition of more spectrum and most likely spectrum that has wide-band capabilities in order to meet competitive pressures for future enhanced services.

In determining the benefits of contiguous spectrum, we compared iDEN to a wideband technology that required contiguous spectrum – i.e. CDMA. We compared the voice capacity of one CDMA 1xRTT carrier of 1.25 MHz to iDEN channels occupying the same bandwidth and concluded that CDMA had a significant advantage in the amount of voice traffic it could support. We note that most wireless carriers are evolving toward future generation (i.e. 3G) systems that are CDMA-based or “wideband capable” and that Nextel has indicated in various government reports and filings that it is examining CDMA opportunities.

The Rosston report claims that Nextel would get a windfall gain by moving from non-contiguous spectrum to contiguous spectrum only if Nextel found it advantageous to switch to a technology that requires contiguous spectrum. This again fails to recognize

⁹ Ibid Page 6

the distinction between FMV and investor value. Our analysis of the various segments of spectrum is independent of Nextel or any other particular company. We have not made any assumption that Nextel would change its technology for any of its current or proposed spectrum. However, we note that Nextel has stated that certain “additional products or services” that it might wish to deploy in the future would require the use of new technologies and the use of contiguous spectrum.¹⁰ As with the real estate example, the value of spectrum is predicated on its potential use and not on its current use.

Investor Value Analysis

Since Rosston continually refers to the investor value of the spectrum Nextel proposes to give up, we have prepared Table A solely to illustrate the error of his ways. Clearly Rosston should recognize basic economic theory that mandates each side of an equation must be balanced under a common definition. Thus, if investor value were to be correctly applied to the spectrum Nextel proposes to give up, it must also be applied to the investor value criteria for the spectrum it proposes to receive.

Table A is prepared in a manner similar to Table 7 of the Kane Reece appraisal report, except for the change in value definition to investor value. For Nextel’s 700 MHz and 900 MHz bands, we have accepted Nextel’s opinion of these bands’ value to Nextel (as opposed to the FMV definition which places little value on this spectrum due to substantial limitations). The Rosston report shows an investor value (derived from the Kane Reece Appraisal) for Nextel’s 800 MHz band license to be \$2.53 per MHz pop, with which we concur. However, we must consider that our conservatively estimated impairment of 17.5% (82.5% good) applies to Nextel, as well as any “willing buyer”. The reason this is conservative is because the impairment is attributable to the following four factors, only the first of which were we able to quantify:

¹⁰ We may not be able to obtain the spectrum necessary to implement new technologies or pursue our long-term business plan... Certain next generation technologies that we may deploy in the future would require that we hold contiguous spectrum before those technologies could be deployed on our network, making it necessary for us to acquire contiguous spectrum before we could provide additional products or services to our customers or provide other benefits that can only be provided with these technologies. [Pg 29 of Nextel 2003 10K filing.]

- a) Co-channel interference
- b) Inter-modulation interference
- c) Adjacent channel interference
- d) Out-of-band emissions

Therefore, as calculated at the bottom of Table A, the average \$2.53 per MHz calculated by Rosston translates to \$2.27 for the impaired lower 800 MHz band and \$2.75 for the unimpaired upper 800 MHz band.

Using the same methodology as our appraisal report, we calculate the net investor value gain to Nextel to be \$5.5 Billion, compared to our determination of a \$6.5 Billion FMV gain to Nextel. Note that this investor value assumes that Nextel will deploy iDEN in the proposed new contiguous 800 MHz band, which it may not. Also, it is possible that there would be some efficiency gain even if iDEN were deployed and for both of these reasons, we believe our investor value windfall to Nextel to be conservative.

Additionally, under the investor value criteria, it is our opinion that the phased deployment of a wideband technology in the additional six MHz of upper 800 MHz bandwidth adjacent to Nextel's existing 10 MHz would conservatively result in an additional \$2.1 Billion investor value gain¹¹ to Nextel for a total of \$7.6 Billion, even higher than our FMV conclusion.

¹¹ Kane Reece Appraisal Report, Pg 54.

Table A
Analysis of Gain to Nextel from Spectrum Swap, on an Investor Value Basis

<u>Band (MHz)</u>	<u>Bandwidth (MHz)</u>	<u>Industry/Investor Value \$ per MHz*POP</u>	<u>Impairment (%)</u>	<u>Value \$ per MHz*POP</u>	<u>Pops (Millions)</u>	<u>Investor Value (\$Millions)</u>	<u>Net Gain in Investor Value (\$Millions)</u>
VALUE OF SPECTRUM NEXTEL PROPOSES TO SWAP							
Investor Value							
700	4.0	\$ 0.372	0.0%	\$ 0.372	235	\$ 350	(1)
800(Gen Cat.& Interleave)	8.5	2.747	17.5%	2.266	235	4,527	(2)
900	3.8	1.837	0.0%	1.837	235	1,640	(1)
						\$ 6,517	

VALUE OF SPECTRUM PROPOSED TO BE GRANTED

Investor Value							
800	6.0	\$ 2.747	0.0%	\$ 2.747	235	3,873	(3)
800	6.0	2.747	0.0%	2.747	55	907	
1900	10.0	2.747	0.0%	2.747	290	7,967	
						\$ 12,747	
		License Value gained				\$ 6,230	
		Less: Nextel Relocation Costs*				700	
		Net Investor Value Gain to Nextel				\$ 5,530	

Potential Synergy For 16 MHz of Contiguous Wideband Spectrum

800 MHz "upper 200"	10.0				235	\$ 6,456	(4)
New 800 mHz	6.0				235	3,873	(3)
						\$ 10,329	

Value of 20% channel improvement in 16MHz contiguous spectrum = 20% * \$ 10,329 = **\$ 2,066**

Net Gain Specific to Nextel Including Channelization Technology Improvement \$ 7,595

* Nextel's proposed funding for relocation of 800 MHz incumbents is not reflected in the license swap value gained. The present value of those expenditures of \$850 million over 42 months is estimated at \$700 million based on a level monthly expenditure over 4 years.

Valuation of 800 MHz spectrum components (Investor value)

(1) Investor Value is as stipulated by Nextel to be the specific Value to Nextel(See Sun Fire Report)		
(2) Nextel spectrum value	\$ 12,973	
less 900 MHz spectrum value	1,640	
less 700MHz spectrum value	350	
Value of all 800 MHz spectrum (18.5 MHz)	10,983	
		% not impaired(%good)
800 mHz lower 8.5 spectrum factor =	f1=	82.5%
1 mHz value (unimpaired) =	10,983/(10+8.5*f1)	646
8.5MHz lower spectrum value (Unimpaired)		5,487
8.5MHz lower spectrum value (Impaired)		\$ 4,527
Per MHz Pop		\$ 2.266

Nextel Investor Value for Contiguous 800 MHz Spectrum Nextel Gains in the Proposed Swap

(3) Total FMV of Nextel Licenses at 12/31/02	\$ 12,973
Investor Value of Nextel Frequencies to be Surrendered	6,517
(4) Value of Remaining Upper 800 MHz Band 10 MHz Spectrum covering 235M POPs	6,456

Value to Nextel for 235 POPs of 6 MHz contiguous spectrum @800 = 60% * 10MHz value = **\$ 3,873** (3)
Per MHz Pop \$ 2.747

Conclusion

The Rosston Report is ripe with unsupported allegations, innuendoes, and incorrect economic and valuation theory and application. It should be dismissed. Specific problems with the report include:

- It is based on investor value and not the required fair market value.
- It incorrectly assumes that Kane Reece's Appraisal is based on Nextel switching to CDMA technology.
- It incorrectly includes transition costs which are a normal evolutionary cost to every wireless carrier. There should be no expectation that the industry should pay for Nextel to change technology. The FMV of the spectrum Nextel gives up and gains stands on its own. FMV incorporates capital expenditure requirements based on Wall Street's perceptions, and should not be double counted as Rosston proposes.
- Rosston's firm-level analysis is flawed because it is investor value, not FMV. As shown herein, to correctly portray the Nextel investor value "equation", one must use the same definition on both sides, i.e. what it gives up and what it gets. Clearly, while we do not believe investor value is the correct criteria to evaluate the Consensus Plan, when performing the investor valuation determination correctly, it still shows a windfall to Nextel of between \$5.5 billion and \$7.6 billion.