New Entry in 700 MHz

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Who Are We?

- A team of experienced wireless operators and financial experts
- Looking to leverage large market 700 MHz A and B licenses to become a new entrant with feature rich services and using innovative pricing models
- Planning to take advantage of market dynamics and the sharing of spectrum and infrastructure with non-dominant incumbent carriers

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Strong Track Record in Operations and Finance

Nate Davis is a seasoned telecommunications executive who has served in senior management roles at XM, XO Communications, Nextel, MCI and AT&T. He currently serves as the Chairman of k-12, director of Unisys, RLJ Lodging Trust, and Mutual of America Capital Management Corporation. Davis has in the past served as a director of XM, Charter Communications and Earthlink.

Davis was President and COO of XO Communications from late 1999 through early 2003. During his tenure, XO became a $1.38 billion integrated communications provider offering voice, data, internet access, and web hosting services to all segments of the business market. At Nextel Communications, Davis was the Executive Vice President of all technical operations, which included engineering, operations, procurement, and IT. Davis also served as CFO of MCI Telecommunications, President and COO of MCImetro, and in a host of roles at MCI and AT&T earlier in his career. He has served as Executive In Residence at the venture capital firm Columbia Capital.

In his career, Davis has been involved in raising capital for innovative telecommunications companies and projects including raising $2.7 B for XO including the sale of preferred stock to a private equity group as well as the sale leaseback of European assets. In addition to these transactions, Davis, as CFO of MCI, raised money from public and private markets to finance several international acquisitions. During his tenure as a board member of XM Radio, Davis served as the lead independent director evaluating the company's financing options and the viability of its capital structure culminating in raising $1.2 B in bonds to support the merger of XM and Sirius in his role as CEO of the merged companies.

Strong Track Record in Strategic Financing

Thomas J. Baltimore, Jr. is President and Chief Executive Officer of RLJ Lodging Trust. In May 2011, Mr. Baltimore successfully led the roll-up and merger of RLJ Development, a hospitality investment firm, with its two affiliated private equity funds, and the subsequent initial public offering of RLJ Lodging Trust (NYSE: RLJ).

RLJ is one of the largest U.S. publicly-traded REITs, with 144 hotels operating primarily under the Marriott or Hilton family of brands, in 20 states and the District of Columbia. Mr. Baltimore was the co-founder and President of RLJ Development, with direct day-to-day responsibility for company operations since its inception in 2000. Under Mr. Baltimore's leadership, RLJ, through its affiliated private equity funds, raised over $2 billion in equity from major public and corporate pension funds, financial institutions and insurance companies, and acquired or disposed of nearly $6 billion in hotel real estate.

Prior to launching RLJ, Mr. Baltimore was a seasoned hospitality executive and between 1988 and 2000, Mr. Baltimore served in senior-level positions at Hilton Hotels Corporation, Host Marriott Services Corporation (Marriott spin-off) and Marriott Corporation, where he was involved in business development, finance and acquisition roles.

He serves as a Director of Prudential Financial, Inc. (NYSE:PRU), Duke Realty Corporation (NYSE: DRE) and Integra Life Sciences Holding Corporation (NASDAQ - IART).

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700 MHz Opportunity

- VZW has publicly stated that it <u>might</u> divest of its 700 MHz A and B block licenses and to do so in a way that promotes new entry and diversity in spectrum ownership.
- Stated that A and B blocks are "incompatible" with its C block deployment – response to FCC's Rick Kaplan in May 2012.

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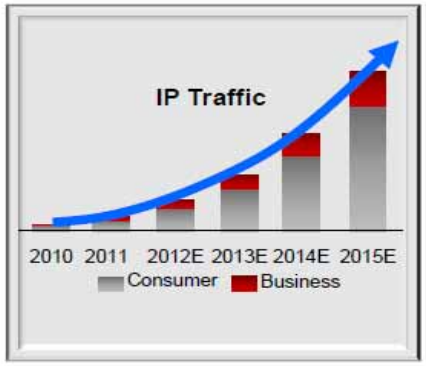
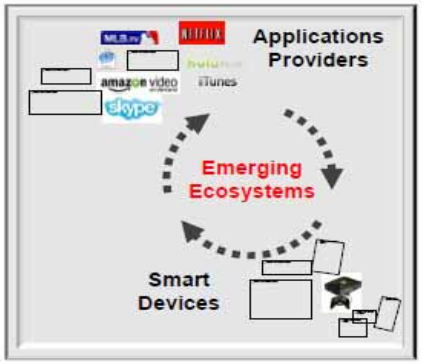
State of the Wireless Market

Decoupling of consumers, apps, and devices from the network

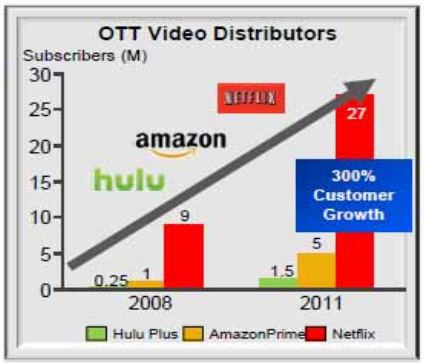
Unyielding bandwidth growth





App ←→ Device ecosystems not service provider-dependent

Growth in OTT video consumption changes the traditional MSO model



The "Cloud" decouples services from the network

Tony Melone, CTO VZW

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The Art of the Possible

- It is still possible to be a facilities based new entrants and gain traction….key is to find new customer categories and unique pricing models…

  - **France's Iliad's** gained **2.6 million mobile subscribers in the first 80 days** since it became France's fourth mobile-network operator this year, offering discounted packages starting at **2 euros ($2.46)** to make inroads into the market. SFR, the wireless arm of Vivendi, met with unions this month to discuss plans to cut costs as it seeks to slow customer defections to Free.

    Bloomberg BusinessWeek, July 19, 2012

  - Tough competition at home hits FT-Orange results -- France Telecom-Orange (FT-Orange) has posted second quarter revenue of EUR10.9 billion (USD13.2 billion), down 2.1% year-on-year on a comparable basis, while earnings before interest, tax, depreciation and amortisation (EBITDA) slipped 6.5% to EUR3.6 billion. The company was hurt in its domestic market by intense competition triggered by the arrival of Iliad's Free Mobile, a new low-cost cellco. Orange France lost 155,000 mobile subscribers during the second quarter, an improvement on the 615,000 lost during the first quarter. Overall revenues in France were down 2% year-on-year.

    •TeleGeography - Jul 26, 2012

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Spectrum Access is Key to Viability

- True new entrants need access to spectrum to avoid MVNO trap –Nextel, MetroPCS, LEAP, T-Mobile all examples of “thin” networks that were and are disruptive competitors (i.e.
- Although nationwide spectrum is needed for long term viability, access to spectrum in major markets is sufficient to provide pricing signals in the marketplace and generate feature and price based competition (thereby enhancing consumer welfare)
- For example, MetroPCS operates in only 13 major markets but has significantly shaped the pricing behavior of the prepaid market --- has grown to 9 mm subs in less than 10 years (compare with Illiad in France)

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Spectrum Engineering for A New Entrant

- For existing players with large customer bases, 2 GHz spectrum (e.g., AWS-1) is attractive because customer usage density requires smaller cells
- 700 MHz is ideal for providing coverage which large carriers need ***but is essential to new entrants*** (e.g., spectrum below 1 GHz allows for wider cells and greater building penetration).
- Both types of spectrum are necessary but at different levels of maturation of a company

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Key Business Plan Elements

- Delivery of new data only services to new categories and segments in large, urban markets (absent a national footprint)
  - Peer-to-peer consumer content (e.g., ooVoo, Vimeo and other self-generated content);
  - Multi-channel video delivery of long-tail content to specialized and unique affiliated consumers (e.g., ethnic markets) on low cost wireless devices (e.g., Android O/S);
  - New categories including Interactive Digital Signage

- Take advantage of 700 MHz coverage depth in large markets reducing capital costs and opex.

- Infrastructure sharing and roaming agreements between players that have 1.9/2 GHz spectrum and those that have 700 MHz spectrum will be key to long term success of new entrants.

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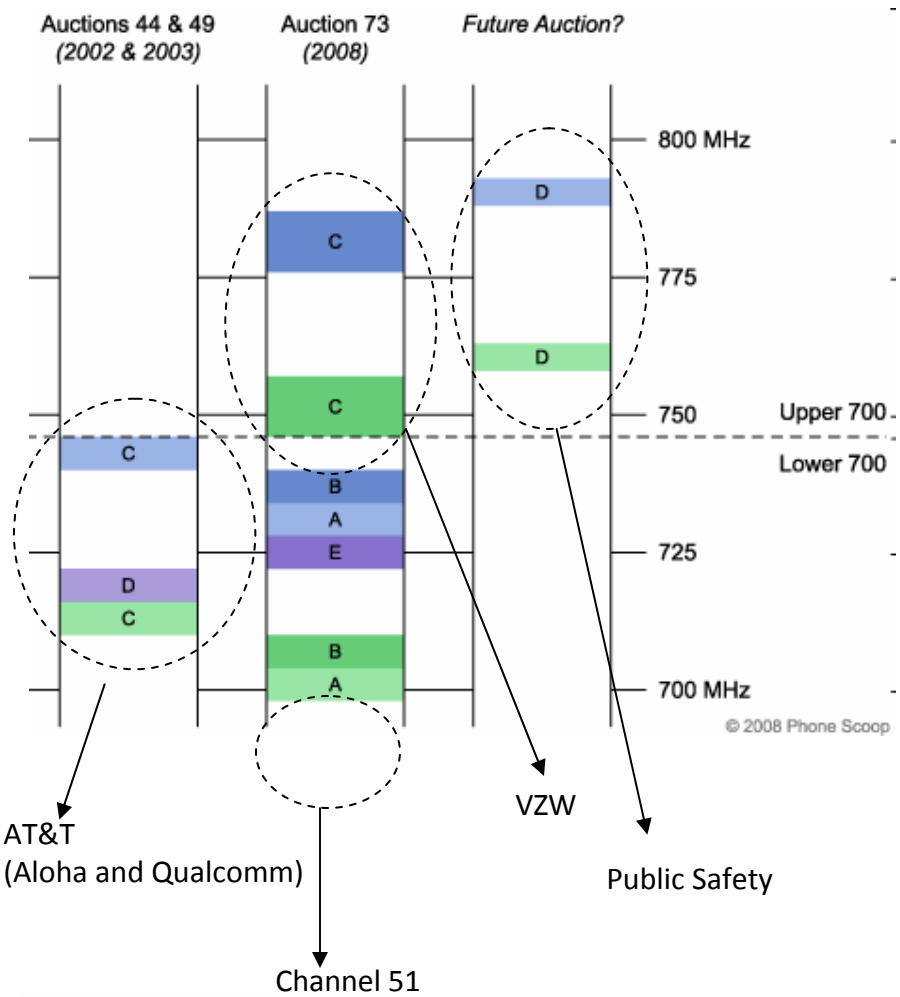
Post-Auction 700 MHz Structure and Issues



2008 Auction resulted in a particular industry structure

FCC regulations require build-out of licenses by summer of 2013
-35% of the geography.

Uncertainty regarding outcome of the 700 MHz Interoperability Proceeding at the FCC

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Factors Affecting New Entrants

- **Geographic Build-out deadlines with penalties** raises cost of financing and could lead to inefficient buildout for new entrants
- **Isolated or unique band classes** creates issues for device ecosystem – raising cost of service and potentially adoption rates
- **Lack of interoperability** raises cost of service by requiring roaming on other network
- **Interference** with Channel 51 for A block licenses
- **Speed to market and lack of nationwide footprint** raises operational challenges (e.g. towers), customer acquisition costs, and capital hurdles, especially for new entrants

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