

Options for ITFS License Holders

BIA Financial Network

NIA 2003 Annual Conference

Tampa, FL



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**Advisors and Investors in the Media and
Communications Industries**



BIAfn – Who are we?

- BIA Financial Network, Inc. has developed an expertise in the telecommunications industry in cellular, PCS, paging, SMR, fixed wireless, satellite, broadband, long distance, resale, fiber optics, IT services and ASPs, ISPs, IXC and CLECs. Our valuation expertise, honed over nearly 20 years, has proven to be of critical importance in the valuation of spectrum, particularly ITFS, MMDS and LMDS. We have assisted many companies with work-out and bankruptcy strategies, as well as raising capital for acquisition and growth.



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Outline

- We will focus on:
- What current license holders are doing
- Trends in the ITFS/Telecom industry
- Current and potential value of ITFS spectrum
- Future options for license holders
- Case study



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What are license holders doing?

- Seeking advice
- Looking for financial and technical partners
- Waiting for direction from the FCC



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What are the FCC's options?

- New band plan
- Exclusive geographic service areas
- Replace interleaved with contiguous spectrum
- Protection and compensation for existing license holders
- Modification of interference protection
- Let's start with a review.....



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No significant progress in the industry -why?

- Proposed rulemaking still up in the air
- Vendor equipment and deployment
- Economy and telecommunications downfall = capital crunch
- A closer look.....



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Industry Regulation

- Waiting on resolution of the NPRM that will enable:
- New nationwide band plan that separates high power fixed operations from two-way cellular like operations
- Replace the existing system of interleaved channels with substantial contiguous spectrum block
- Eliminate site-by-site licensing with defined geographic areas
- Elimination of interferences consents from adjacent licensees
- => Result in higher viability of business plans and considerable increase in the efficiency and use of the spectrum => Higher value of the spectrum



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Deployment and Vendors

- 2nd generation NLOS is being deployed by the large operators as well as smaller, some examples:
 - Bell South – 3 months trial of Navini Networks in Daytona, FL.
 - Sprint – Using Navini and IP Wireless is conducting trials while considering best technology for broadband deployment
 - Clearwire – launched in Jacksonville, FL in January using IP Wireless' UMTS-TDD technology.
 - Rioplex Wireless – deployed in Rio Grande Valley using Navini
 - Zephyr Communications to deploy SOMA Networks in Chico, CA
- However, large scale deployment is not possible yet – the equipment manufacturer are not capable of it at this point – will limit large scale deployment in the near future! Also capital missing.....



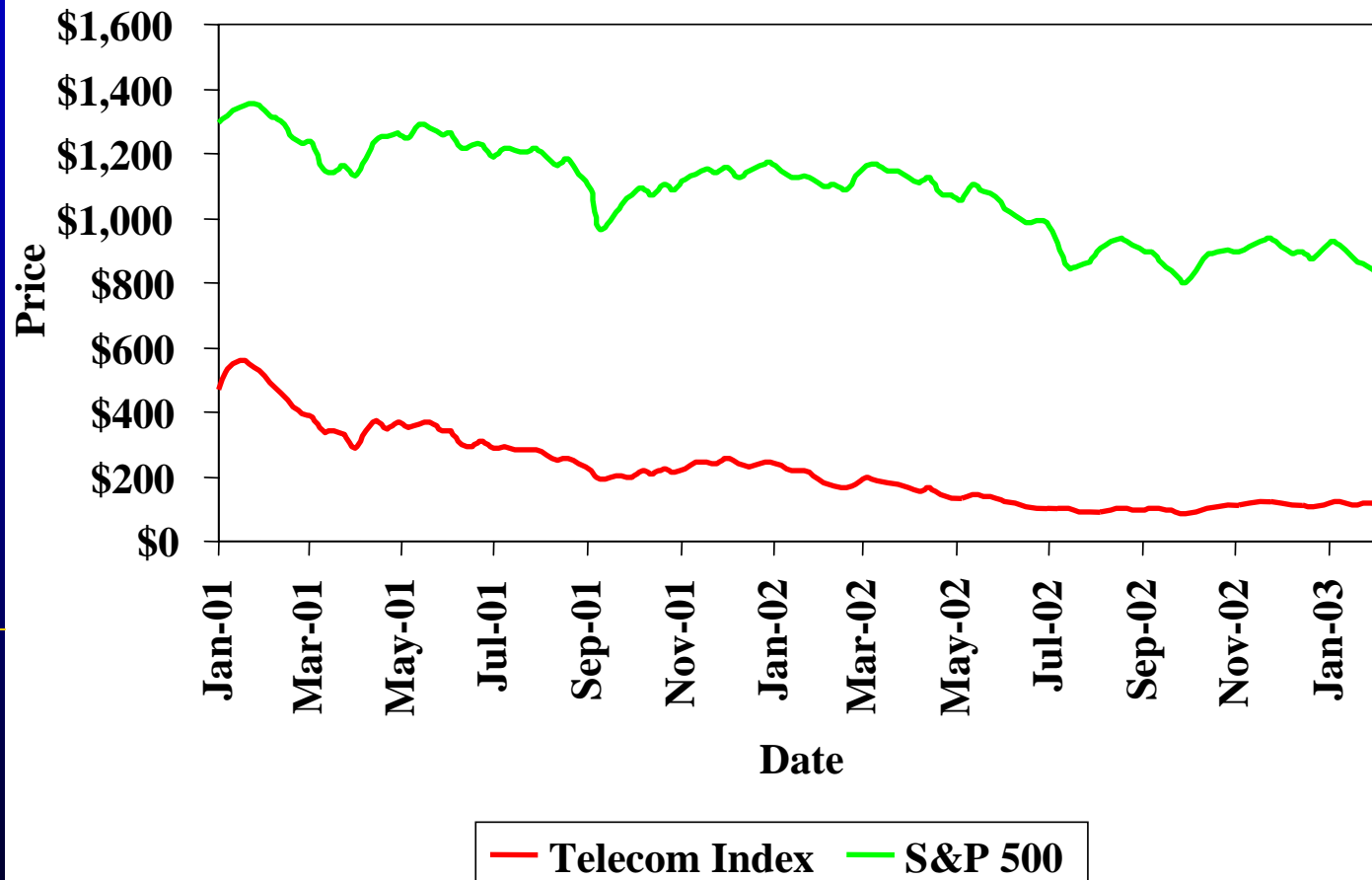
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A Closer Look at the Industry and the Economy: Telecom Index



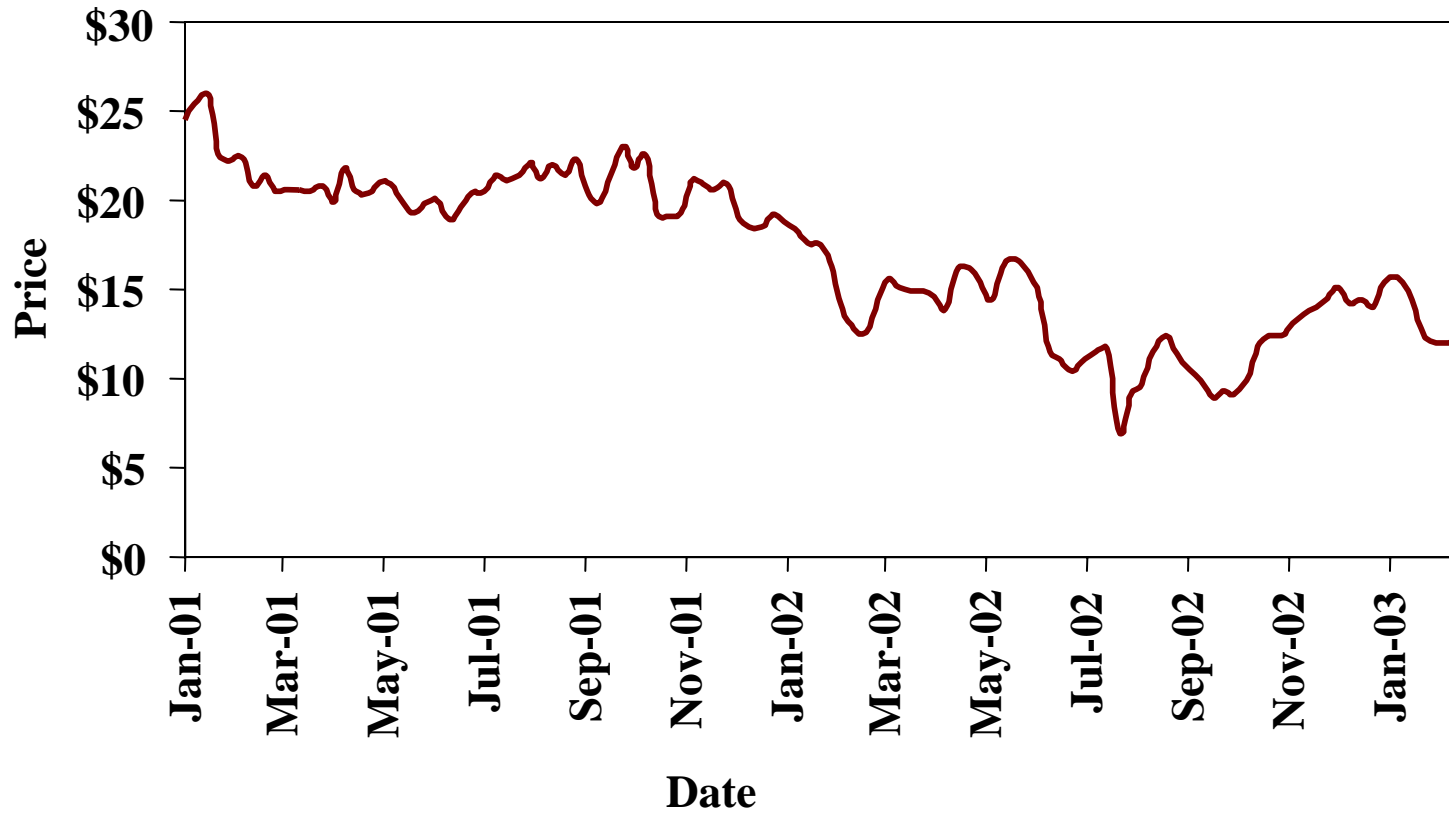
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Sprint



— Sprint (FON)



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Telecom Bankruptcies 2001/2002 - Also Affecting Liquidity

Company	Date	Pre-Bankruptcy Assets (000)	Total Liabilities (000)
WorldCom, Inc.	7/21/2002	\$103,803,000	\$43,834,000
NTL, Inc.	5/8/2002	\$26,345,500	\$20,427,800
Global Crossing, Ltd.	1/28/2002	\$25,511,000	\$14,639,000
Adelphia Communications Corp.	6/25/2002	\$24,409,662	\$18,604,914
Century Communications Corp.	6/10/2002	\$10,700,263	\$7,389,612
Metromedia Fiber Networks	5/20/2002	\$7,024,208	\$6,799,321
Comdisco, Inc.	7/3/2001	\$6,790,000	\$6,216,000
XO Communications, Inc.	6/17/2002	\$5,704,497	\$5,819,436
Williams Communications Group, Inc.	4/22/2002	\$5,664,898	\$6,711,509
McLeod USA, Inc.	1/31/2002	\$4,792,600	\$4,419,200
		\$220,745,628	\$134,860,792



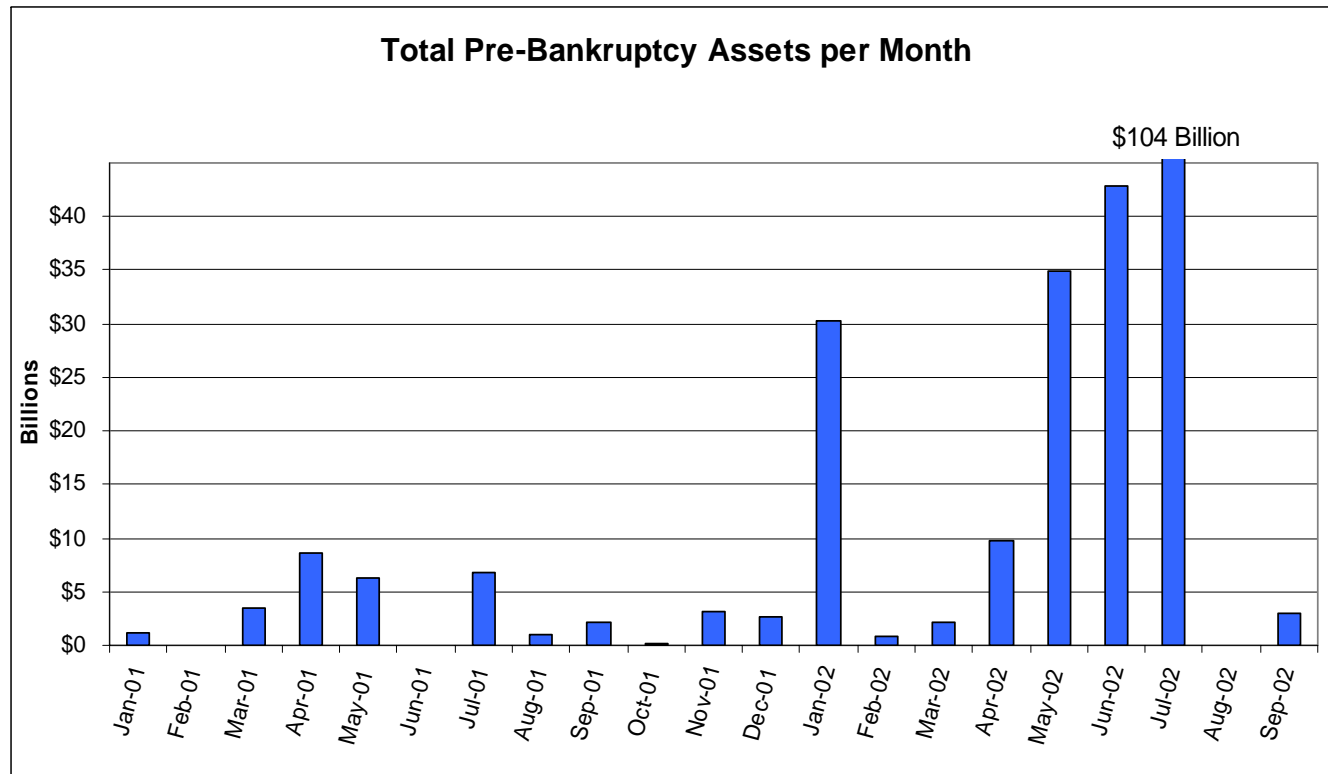
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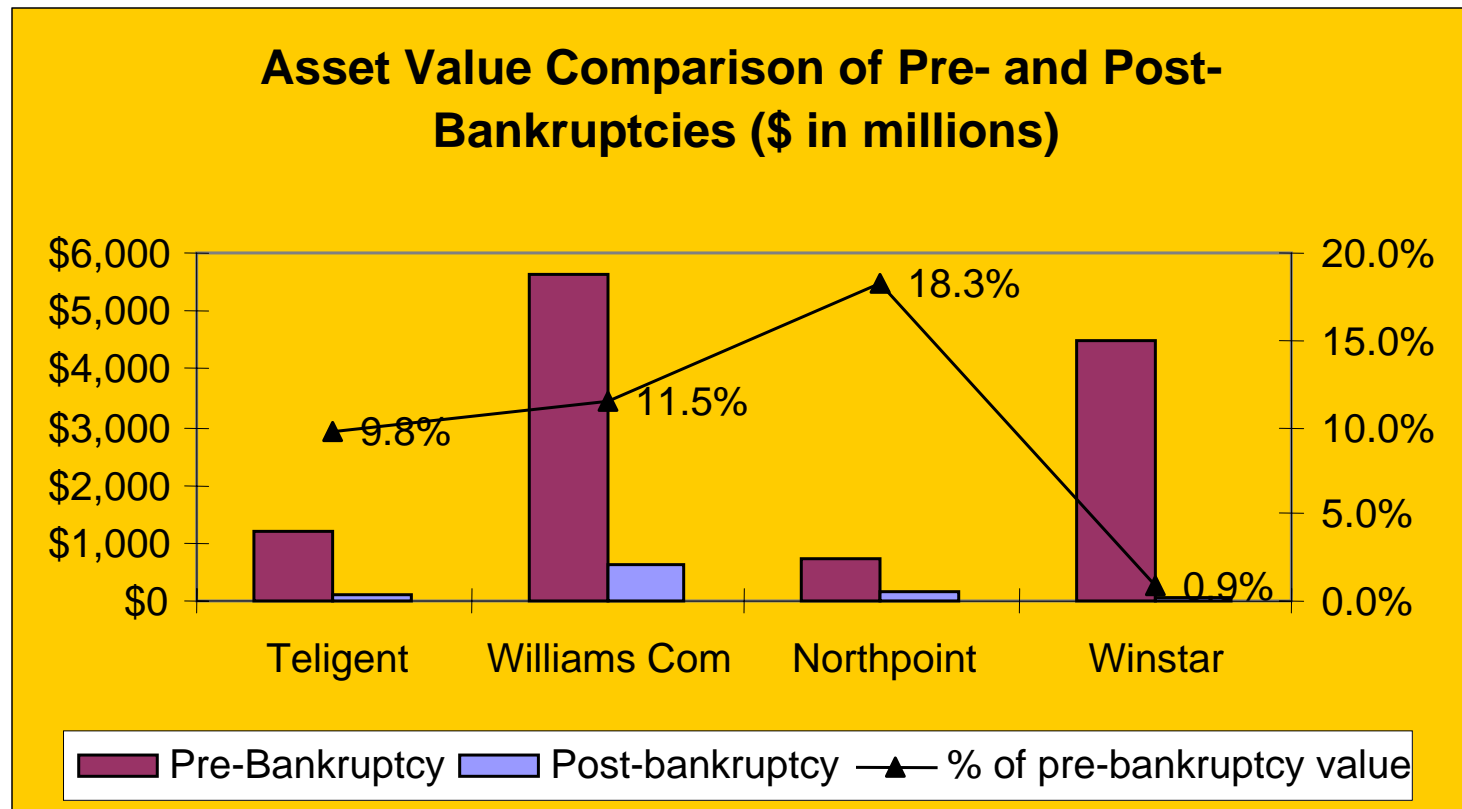
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Telecom Assets In Bankruptcy – Increased Significantly in 2002



Asset Recovery of Telecom Companies – The Domino Effect!



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What will the spectrum be worth – should we stick with the licenses?

- Assuming new band plan is accepted, interference rules simplified and the major objectives of the NPRM are achieved...
- => A comparison with current values of PCS spectrum.....First a look at current MMDS spectrum prices.....



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What is being paid for fixed wireless licenses today?

- **Market is very limited and the outcome of the MCI WorldCom licenses will affect prices significantly until the regulatory uncertainty is eliminated:**
- **Price/HH/Ch:**
- Median 2001-2002: \$0.49
- Average 2001-2002: \$0.59
- Range \$0.07 to about \$1.3



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MDS/ITFS Transaction Trends

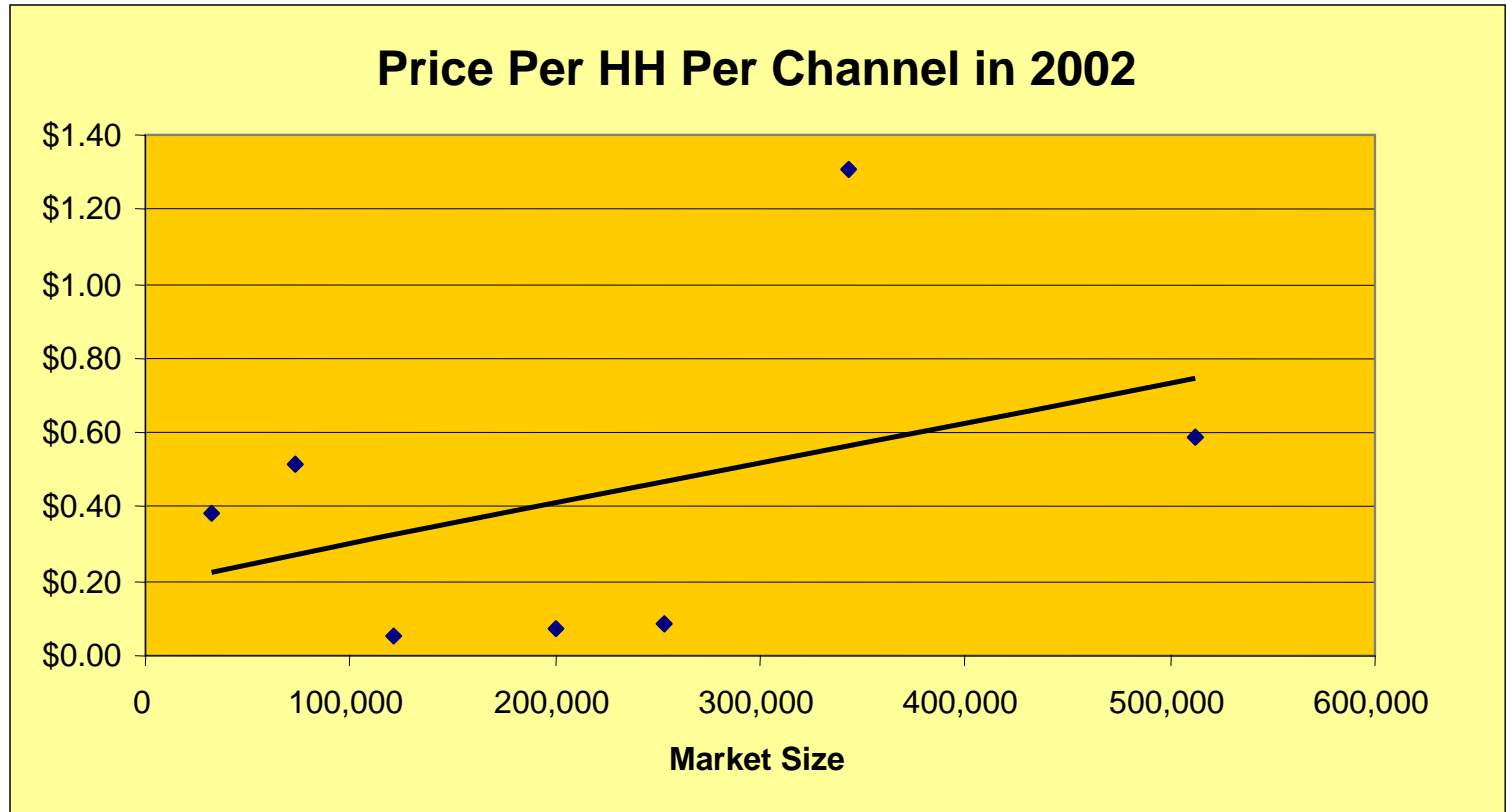


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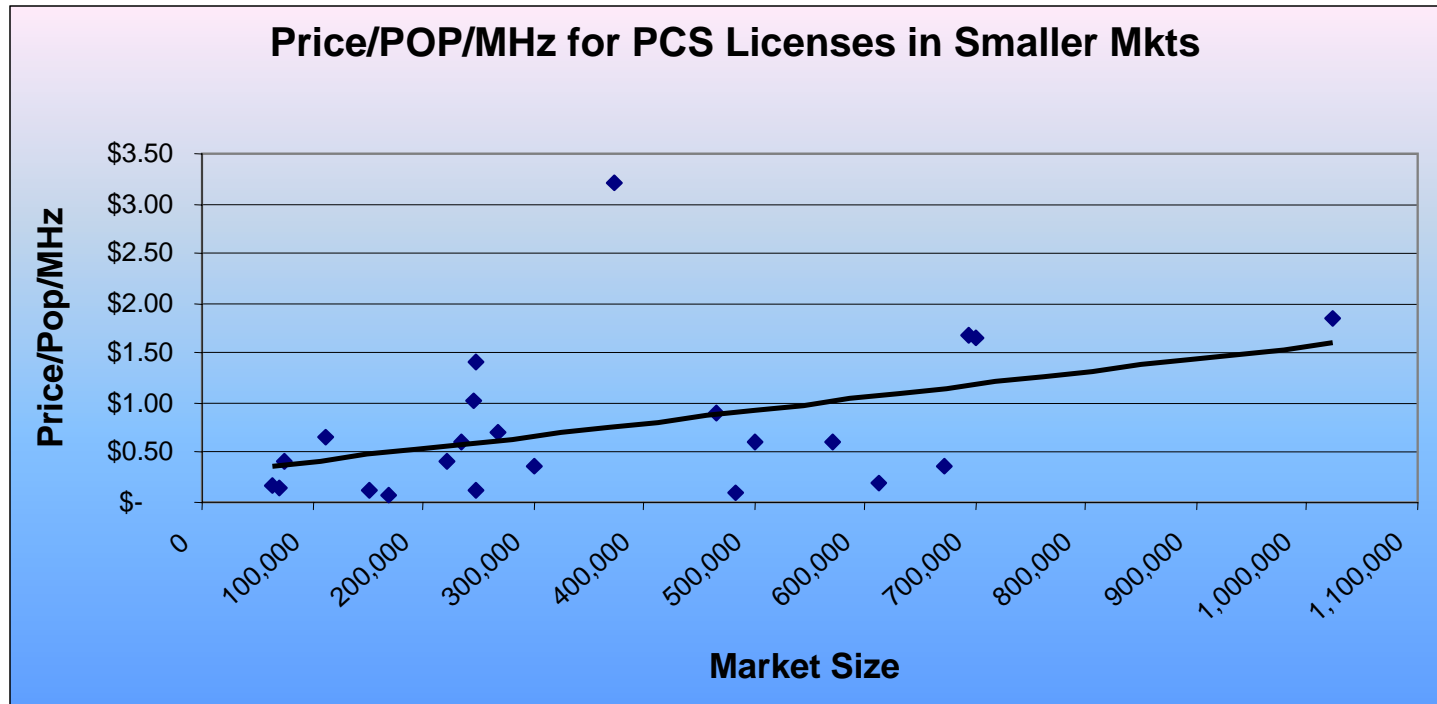
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Potential Value based on PCS/SMR Spectrum

2001/2002 Transactions of PCS Spectrum Only



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How do these values compare with future MMDS/ITFS license values?

- Are the PCS spectrum values an indication of value to come for MMDS/ITFS license holders?
- Factors that can affect the value of the spectrum:
 - Market will be somewhat flooded with beachfront spectrum => lower price
 - FCC does not consent to all rule changes making broadband and cellular two-way difficult
 - If geographical areas are assigned => positive for the value – if licenses will continue on a site-by site basis => spectrum will be worth less (more fragmented and then more comparable to SMR)
-



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Value Summary

- Nevertheless,
- PCS spectrum values today can serve as a guideline for the max the MMDS spectrum can be worth when:
- The regulatory issues are resolved
- The economy is back on track
- Technology is available on a larger scale
- The telecom sector is recuperating making capital infusion easier!



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Possible Action Items for ITFS License Holders

- Renew lease agreement with current commercial partner
- If that is not possible:
 - Work with your attorney to keep license
 - Partner up with small commercial players
 - Find a commercial partner that will help you maintain your license until the uncertainty is over with
 - Independently build out a system or maintain a system that will keep you afloat until renewed interest in the spectrum appears.



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Full Build Out vs. Minimal Build out

- Digital 2-way:
 - Reduce costs for third-party broadband access
 - Convenience of WLAN

- Analog system:
 - Minimize costs to keep license



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Case Study

- Assumptions:
 - 50,000 pops, 18.5k HH
 - 48 MHz
 - Digital build out - \$148k (\$8 per HH)
 - Analog build out - \$100k
 - Annual lease rate - \$2.2k (1/4 cent per HH/MHz)
 - Current broadband expenses - \$50k/yr



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Caveats

- Returns are based on a time frame of 1,2, or 5 years
- At the end of the time frame, it is assumed that an increased potential value will be realized through lease to PCS operator
- Assumptions are based on conversations with industry experts, however, the results for each license may vary
- This analysis is for illustrative purposes only, and does not include all expenses/benefits associated with ITFS licenses



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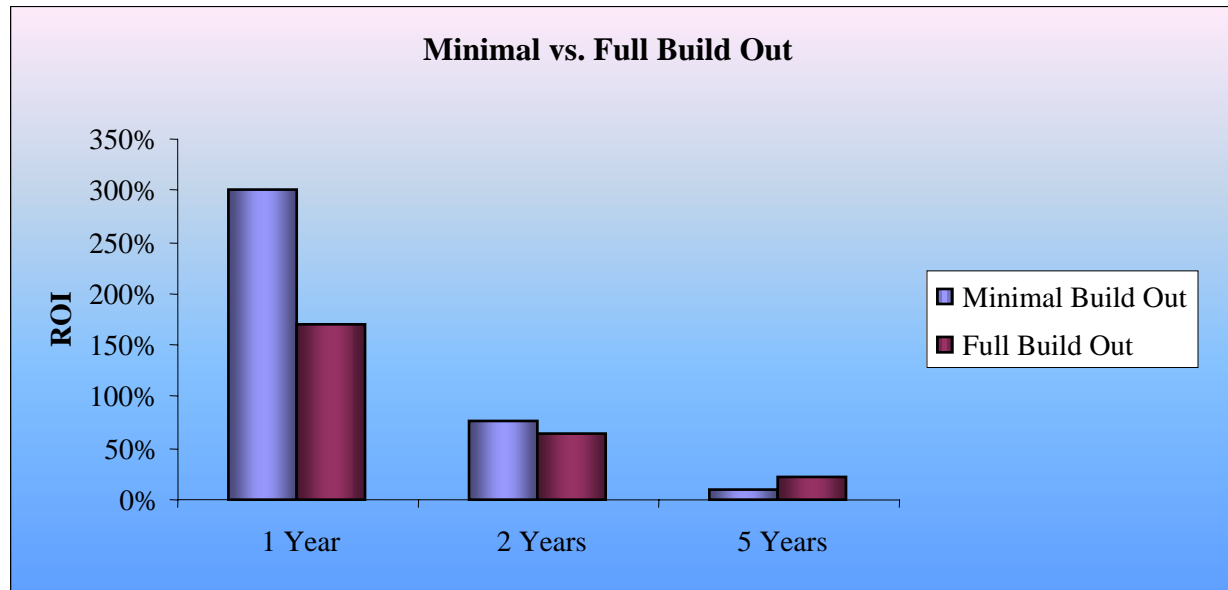
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Build Out Returns

	<u>1 Year</u>	<u>2 Years</u>	<u>5 Years</u>
Minimal Build Out	300%	77%	10%
Full Build Out	170%	65%	23%



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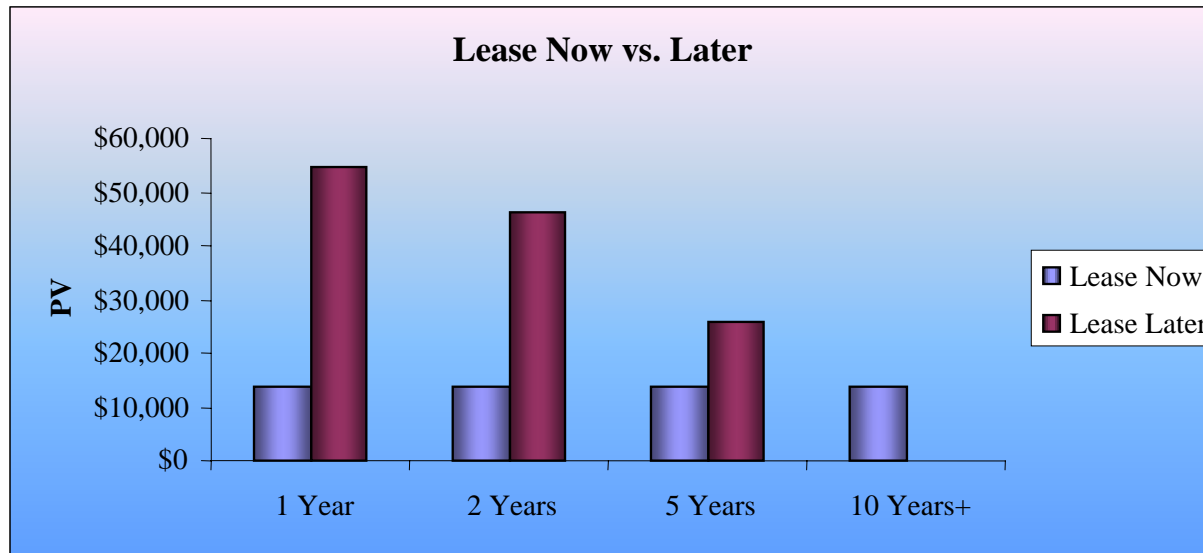
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Lease Now or Lease Later?

	<u>1 Year</u>	<u>2 Years</u>	<u>5 Years</u>	<u>10 Years+</u>
Lease Now	\$13,807	\$13,807	\$13,807	\$13,807
Lease Later	\$54,465	\$46,392	\$25,587	\$0



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Conclusion

- 2003/2004 will show what the future holds for ITFS/MMDS
- Uncertain times - regulation, time value of money
- Constantly evaluate alternatives
- Think long term



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■ Questions?

- E-mail: krandolph@bia.com



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