

NEXTEL HISTORY

The mission we set for our company was very simple: Nextel is to be a worldwide leader in wireless communications. This cannot be achieved without first taking care of business here at home. And we are. Nextel, today, is the quality service provider and the innovative product and pricing differentiation leader in the digital wireless communications industry. No competitor can provide all the features and functionality of Nextel's service--digital cellular, voice mail, text/numeric paging, and Nextel Direct Connect two-way digital radio service--all in a single handset manufactured by Motorola. Our business customers tell us that our communications solution offers the greatest productivity enhancement in the industry.

Company History:

Founded originally to develop mobile telephone service on existing radio bands, Nextel Communications, Inc. has evolved to provide specialized mobile radio services (for truck drivers, taxi cab drivers, and the like) as well as wireless telephone services. The company is one of the largest all-digital wireless communications providers in the United States, providing competition not only for wireline telephone networks, but also for conventional cellular systems. In the late 1990s, the company rapidly expanded its digital cellular network, eventually providing a coverage area for approximately 85 percent of the U.S. population by the end of the decade. Motorola holds an approximately 24 percent share of Nextel, while wireless communications pioneer Craig McCaw holds another 13 percent.

Early Beginnings As Fleet Call, Inc.

In the beginning, Nextel managed to skirt regulations that restricted the allotment of increasingly sparse radio bands by making better use of others that already existed. The company developed an all-digital system to operate within underutilized radio bands that were previously used only to dispatch taxicabs. Rather than lobbying a regulatory commission for rights to new frequencies, Nextel merely purchased those that were already there. In doing so, the company established a mobile telephone system that worked like cellular, but was not subject to the regulatory morass that precluded new start-up companies from entering the market.

Mobile radio systems had been in use since the 1930s, enabling police, firefighters, and taxi and delivery drivers to stay in touch with dispatch operators. The Federal Communications Commission (FCC) allotted special frequencies for these systems, but their limited bandwidth made them practical only for mobile fleets and not for the average motorist. During the 1970s, AT&T developed a system using a network of local transceivers that could switch a mobile telephone from one antenna, or "cell," to another as it moved from one area to the next. Technological developments greatly expanded the capacity of this service, making widespread commercial use possible. Accordingly, the FCC designated new frequencies for these "cellular" phone systems.

With the break-up of AT&T as a nationwide local service provider in 1984, local telephone companies inherited the rights to develop cellular telephone networks. To ensure speedy development, the FCC limited each market area to only two cellular companies. In such places as San Francisco, Denver, Chicago, and New York, customers were allowed a choice, but only between two cellular companies.

The companies best suited to develop cellular systems often were those with the most resources, such as established telephone companies BellSouth, Southwestern Bell, Ameritech, and GTE. Many smaller companies in the industry, unable to compete or raise financing, were steamrolled into mergers with these companies. What resulted was a regime in which pairs of competitors locked up virtually every market in the country. The entry of third tier competitors was precluded by FCC rules aimed at nurturing the market and conserving capacity on the airwaves.

Thousands of other radio wavelengths had been reserved for some future use. Others had been set aside decades before for mobile radio, using an old and highly inefficient analog signaling system--an accident of history and technology that provided the seed for a new form of mobile telephony that could operate in competition with cellular systems. These specialized mobile radio networks could be converted to use digital signals, which require only a fraction of the bandwidth of conventional capacity-hogging analog signals. By going digital, previously limited radio bands could be opened up to handle thousands of calls.

Around this time, the FCC recognized that its policies had successfully allowed the cellular industry to mature to a point where greater competition could be allowed. Rather than further crowd existing cellular frequencies by allowing more competitors into each market, the commission chose instead to back the development of specialized mobile radio (SMR).

Hundreds of radio frequencies were put into play as entrepreneurs began a mad scramble for SMR frequencies. One of the key players in this trade was Morgan O'Brien, a telecommunications lawyer who represented major SMR operators in proceedings with the FCC. In 1987, O'Brien decided to get into the industry himself. He established a partnership with Brian D. McAuley, an accountant and former executive with Millicom and Norton Simon. In April of that year, O'Brien and McAuley founded a company called Fleet Call, Inc. to acquire SMR properties.

Within the next 12 months, Fleet Call had financed the acquisition of ten mobile radio companies and began laying plans for the construction of communications networks in large markets. At this early stage, Fleet Call concentrated only on acquiring SMR licenses. The task of turning SMR frequencies into a new type of cellular system was still years away.

The SMR business had long been dominated by Motorola, which not only manufactured the radio systems, but also operated dozens of networks. O'Brien and McAuley feared that Motorola would oppose their plan to build a new communication network within the

SMR frequencies and, with its substantial resources, persuade the FCC to stop them. Thus, O'Brien and McAuley arranged a meeting with Motorola chairman George Fisher in order to reveal their plans. They expected Fisher to tell them that he would not allow Fleet Call to so radically upset Motorola's SMR business, one of its oldest enterprises. But to their astonishment, Fisher not only supported the idea, he asked if Motorola could become a partner in the venture. The two companies worked out an equity stake in Fleet Call for Motorola, and developed plans for the electronics giant to build parts of the new system.

A month after the meeting with Fisher, Fleet Call had acquired 74 mobile radio businesses in such metropolitan areas as Los Angeles, San Francisco, New York, Chicago, Dallas, and Houston. Throughout the remainder of the decade, it continued to operate them as radio dispatch systems using old analog transmission technology, and provided service to more than 120,000 subscribers.

A New Focus in the Early 1990s

In April 1991, Fleet Call formally requested permission from the FCC to design and build digital communications systems that would operate on the SMR bands. The systems would continue to accommodate existing fleet dispatchers but, by going digital, would allow thousands more calls to be placed. The FCC unanimously voted to allow Fleet Call to proceed with its plans in February 1991. In its opinion, the Fleet Call system would provide a healthy form of competition for entrenched and technologically limited cellular companies, while providing customers with new options only available with digital technology.

Fleet Call decided to use a digital technology called time division multiple access (TDMA). Simply described, this system made use of periods in which no data was being transmitted (such as during pauses in conversation) by temporarily lending communication capacity to other calls. Statistically, all calls would have such pauses more or less evenly distributed. TDMA ensured that every available "channel" was not squandered by transmitting silence.

With the radio bands in its possession, and having decided on a technology for the system, Fleet Call brought in other partners to build the network with Motorola. One of them was Northern Telecom, a Canadian manufacturer of telecommunications network equipment. In December 1991 the Japanese consumer electronics giant Matsushita joined the project. Matsushita was the manufacturer of the Panasonic and Technics brands, as well as the company that had bought the Quasar line from Motorola some years earlier. Matsushita agreed to supply subscriber units (basically handsets) for Fleet Call's digital mobile networks.

In January 1992, O'Brien and McAuley took Fleet Call public. The initial offering of 7.5 million shares raised \$112.5 million, which was used to fund construction of the company's first network cell site in Los Angeles. Fleet Call also received \$345 million in equipment financing from Motorola, Northern Telecom, and Matsushita. In addition, the

company secured a \$230 million investment commitment from Comcast, a large cable television provider with significant cellular operations, in exchange for a 30 percent interest in the company.

Investor interest in Fleet Call increased dramatically when details of the company's plans--and information about its partners--got out. Share prices nearly doubled as investors clamored to get in on the business.

The company completed work on its Los Angeles cell site in May 1992, using a system that operated in the 800-megahertz band. This frequency could accommodate mobile phone service, two-way radio dispatching, alphanumeric paging and messaging, and dozens of other future applications--all clearly beyond the capability of conventional cellular systems. In addition, the combined functionality of the Fleet Call system would allow customers to receive a single bill for paging, cellular, and mobile data services, rather than the three they would receive under the previously existing systems.

The only downside to Fleet Call's system was that it was incompatible with other cellular networks, precluding "hand-offs" to and from other cellular operators outside Fleet Call's service territory. Recognizing that Californians were married to their cars and spent hours on freeways, Fleet Call broadened the Los Angeles site to cover Santa Barbara, Palm Springs, and San Diego County. Plans were expanded to provide seamless service throughout California by mid-1994. The company also turned its system incompatibility into a marketing advantage by touting its superior privacy and anti-billing fraud characteristics.

Much of Fleet Call's expansion was made possible by its December 1992 merger with Dispatch Communications, another mobile radio company with the same plans as Fleet Call. The combined operation gave Fleet Call coverage in nine of the country's ten largest markets, representing a potential user population of 95.5 million people.

Further Expansion in the Mid-1990s

In January 1993, the company scored something of a coup when it hired John Caner, director of wireless data development at PacTel Cellular. In Fleet Call, Caner saw an opportunity to build an entirely new communications system without the burden of aging legacy systems and Bell-related regulatory problems.

Two months later, in March 1993, the company changed its name to Nextel Communications. The Fleet Call name was deemed inappropriate because it referred to the old radio dispatch technologies. By contrast, "Nextel" cleverly suggested to consumers that, with wave after wave of new technologies, this was the next new thing in communications.

The company established numerous service trials in California during 1993, offering service to 500 customers. This enabled the company to conduct live testing of the system, establish traffic engineering patterns, and perfect billing mechanisms. A great deal had

been written about Nextel up to this point, but the company did not actually begin to offer service until August 1993, when the system was formally "turned on." Nextel remained on the hunt for radio bands in new territories, but many of these had already been snapped up by other companies. However, few of these companies had developed as far as Nextel, which made them prime future merger targets for the company.

Within the next year, Nextel concluded merger agreements with Questar Telecom and a subsidiary of Advanced MobilComm. These agreements brought the company operating rights in the strategically important San Diego region, as well as in Utah, Nevada, and other mountain states. Through another merger agreement, Nextel exchanged some of its Rocky Mountain and Midwestern SMR properties for an equity stake in CenCall Communications. The agreement gave CenCall access to Nextel's digital communications technology, and Nextel gained a 37 percent stake in CenCall. CenCall later changed its name to OneComm. A third merger agreement led Nextel to absorb the operations of PowerFone Holdings, a company with SMR properties in Cleveland, Cincinnati, Pittsburgh, and other Midwestern markets. These developments greatly increased Nextel's service area and potential customer base.

Perhaps the most important acquisition made by Nextel, however, came in August 1994, when the company acquired the SMR licenses of Motorola in exchange for an additional interest in the company. These properties encompassed 21 states, covering 180 million "pops," or potential customers. This transaction positioned Nextel to seriously challenge cellular communications duopolies across the country. This flurry of mergers and partnerships significantly diluted Nextel's investor base, but succeeded in establishing a platform on which the company could offer nearly seamless digital mobile radio services nationwide.

The company's largest potential competitor came not from within the digital mobile radio market but, understandably, from the conventional cellular market. Numerous cellular companies formed joint marketing agreements in an effort to build nationwide brand identities. The competitive landscape came into clearer focus when AT&T announced its intention to acquire McCaw, the nation's largest cellular communications company. In addition to providing AT&T a position in the rapidly growing mobile communications market, McCaw would give AT&T direct access to millions of local telephone customers. As a long distance company only, AT&T was now dependent on local telephone companies for access to these customers. Additionally, by merging with AT&T, McCaw would have access to AT&T's substantial financial and technological resources.

By contrast, although Nextel had substantial backing from leading equipment manufacturers, it had no link-up with a long distance provider. In order to ensure nationwide coverage to rival the AT&T/McCaw combination, Nextel began negotiations with MCI, the nation's second largest long distance carrier and AT&T's fiercest rival. A formal alliance between Nextel and MCI was announced on February 28, 1994. MCI purchased a 17 percent stake in Nextel for the right to market wireless phone, data, and dispatching services under the MCI brand name, using the Nextel network.

Although Nextel lost \$10 million on only \$34 million in revenue during 1993, its market value was quoted at a staggering \$9.5 billion. This indication of investor confidence was based on the formidability of Nextel's emerging alliances, as well as on the future potential of its services.

Perhaps the greatest asset to Nextel's network was its involvement with Motorola, which provided the advanced digital cellular technology under which the system operated. By using the Motorola Integrated Radio System, or MIRS, Nextel entered the communications market with a state-of-the-art platform that provided far greater capabilities than any other existing system. In fact, cellular companies remained divided over which digital system to use in their own upgrade from analog to digital technology, delaying implementation of systems that could compete effectively with MIRS.

The Nextel consortium contained every element necessary to ensure successful entry into the wireless market. Nextel possessed the frequency licenses and network equipment; Motorola, the engineering and manufacturing expertise; Comcast, the experience with cellular networks; and MCI, the long distance capability, billing systems and, most importantly, a nationally recognized and highly valued brand name.

The alliance was particularly important to MCI, which early in 1994 unveiled a new business strategy called networkMCI. As part of this strategy, the long distance carrier announced its intention to establish partnerships with other communications and information industry companies to provide seamless voice and data communication to customers anywhere. With about 95 percent of the nation's population covered by the Nextel system, MCI possessed the ability to market communication services directly to nearly 250 million people. By contrast, companies such as Sprint and AT&T were relatively restricted to the limited coverage of their cellular systems or obliged to deal with local telephone companies and competing cellular operators for access to customers.

Late 1994 and early 1995 saw Nextel ink two more agreements with other companies to expand its own scope. In October 1994, the company made an agreement with Clearnet Communications, Inc. of Ontario, Canada, which gave Nextel expanded coverage in 24 of the top 33 markets in Canada. In February 1995, Nextel signed a merger agreement with Dial Page, Inc., which was the leading SMR provider in the southeastern United States.

Soon thereafter, three ironic and somewhat strange things occurred. In April 1995, wireless communications pioneer Craig McCaw (of the AT&T/McCaw combination), along with his family, decided to invest over \$1 billion in Nextel. Then in January 1996, Nextel brought aboard Timothy Donahue--the former Northeast regional president of AT&T Wireless Services--the new president of Nextel. Three months later, Daniel F. Akerson--the former president of MCI--arrived at Nextel to assume the roles of chairman and CEO.

The Late 1990s: New Services and Acquisitions

In late 1996, Nextel introduced Motorola's new iDEN technology, which combined enhanced digital cellular service, alphanumeric paging service, and two-way radio service into one telephone. Nextel had ordered approximately \$100 million worth of the service from Motorola earlier in the year, and thus began a national rollout of the new service in September 1996, after a very successful Summer Olympics 1996 pilot program.

In January 1997, Nextel made news by introducing the Nextel National Network. The network was linked throughout the country, and allowed Nextel to offer its customers nationwide service without charging roaming fees. This offering was a first in the wireless communications industry, and gave Nextel a considerable edge when trying to land business people with heavy travel schedules. Soon thereafter, the company also announced a new pricing policy, in which its customers' calls would be rounded to the nearest second--not the nearest minute--for billing purposes. The announcements made clear Nextel's commitment to customer satisfaction, and made its new tagline--"Get Smart, Get Nextel"--even more effective.

Throughout the rest of 1997, as Nextel continued to launch its all-in-one iDEN service throughout the country, it also increased its presence in Canada. In May 1997, the company announced a roaming agreement with Clearnet in Canada, which allowed Nextel's U.S. customers roaming access in much of Canada. By September, Nextel had even announced that customers could roam in Canada with their home rates, and that long distance calls made while roaming in Canada would be billed at a flat rate of just 30 cents per minute.

In September 1997, McCaw--which had become a wholly owned subsidiary of Nextel earlier in the decade--changed its name to Nextel International, Inc. The newly named entity retained its standing as a leading international wireless communications service company, while drawing from the newfound advantages of the Nextel brand name. The company went about business as usual, with operations and investments in countries such as Argentina, Brazil, Canada, Indonesia, Japan, Mexico, Peru, the Philippines, and Shanghai.

The following month, in October 1997, Nextel recorded its millionth subscriber--interestingly, almost exactly ten years after Fleet Call had been formed. Nextel entered 1998 poised for continued success. In January, the company introduced its newest offering--the Nextel i600 phone. Smaller and lighter than normal, the phone actually possessed a longer battery life as well as expanded services and options. For example, the new phone included a vibration alert so customers could be notified of calls without an audible ring; the option of a second line; caller-ID; three-way calling; and different ringer styles. Nextel also announced that nationwide caller-ID would soon be available in 75 percent of its markets.

By March 1998, the Nextel National Network covered almost 80 percent of the top U.S. markets. While the service continued to expand throughout the United States, the company also made additional moves to increase its presence internationally. In May 1998, service was launched in Sao Paulo, Brazil, under the name Nextel Brazil, and a

month later service was added in Buenos Aires, Argentina, under the name Nextel Argentina S.R.L. In July, Nextel began offering iDEN service in Tokyo, Japan, through J-COM, a company in which Nextel owned a 21 percent stake. Also that month, service was established in Manila, the Philippines, and in Rio de Janeiro, Brazil.

Meanwhile, domestic subscriptions were skyrocketing. By June 1998 (less than one year after the company signed its millionth customer) Nextel had signed up its two millionth subscriber. The company also entered the Hawaiian market, spending more than \$30 million to offer service comprehensive enough to handle conference calls of up to 100 people. Around that same time, a national distribution agreement between Nextel and Let's Talk Cellular & Wireless was created; Nextel joined a joint venture with Nextlink Communications, Inc. and Eagle River Investments, LLC to build Level 3 Communications' national fiber optic network; and Nextel also announced a retail partnership with Office Depot.

As Nextel approached the 21st century, it was well-positioned within the still-blossoming wireless communications industry. Although there were numerous companies vying for market share within the industry, and although Nextel was competing against such giants as AT&T, GTE, and AirTouch, the company was nonetheless doing quite well. It was continuing to introduce new products and technologies (evidenced by the arrival of the i1000 in September 1998), and was achieving positive cash flow near the end of the decade. Furthermore, as wireless communications became more and more affordable for the average person, companies such as Nextel were not only targeting their services toward people for business purposes, but instead seemed to have access to a vast market of customers who could use wireless communications to enhance their everyday lives.