

McCaw/AT&T History

Key Dates:

1984: The first cellular systems are built in Chicago and Washington, D.C.

1987: Craig McCaw sells his cable television assets to focus on wireless business.

1989: McCaw Cellular Communications acquires LIN Broadcasting.

1992: AT&T Corp. acquires 33 percent of McCaw Cellular Communications.

1994: AT&T Corp. and McCaw Cellular Communications merge.

1998: AT&T Wireless Group introduces Digital One Rate.

2001: AT&T Wireless Services, Inc. is spun off as a separate company.

Company History:

AT&T Wireless, Inc. is the third largest provider of wireless and data services for consumers and businesses in the United States. Through licenses with the Federal Communications Commission, AT&T Wireless has the potential to serve 99 percent of the U.S. population based on the territory covered by its licenses. The company serves more than 20 million subscribers. Through AT&T Wireless's WorldConnect service, subscribers can expect service in more than 100 countries in the Americas, Australia, Asia, and Europe.

Origins

Although AT&T Wireless's corporate roots sprouted from McCaw Cellular Communications, wireless technology was first developed under the aegis of AT&T Corp. It was a case of a company pioneering a technology and later being forced to buy its way into a business it had first developed. In 1947, AT&T Bell Laboratories engineers invented cellular phone service specifically for law enforcement. Police departments were having trouble staying in contact with their patrol cars. At the time, police departments and patrol cars communicated with each other through radio frequencies, but during periods of high use, the system collapsed. AT&T engineers developed a solution, devising special transmitters capable of sending calls between patrol cars as they passed from one area to another--a precursor to the base stations, or cellular towers, that would define a cellular network's coverage area at the end of the 20th century.

The basis of the technology was in place by 1947, but it would take a half-century before the technology entered the American mainstream. Indeed, the first cellular systems were not constructed until 1984, when AT&T Corp. built the first systems in Chicago and Washington, D.C. By the time the first systems were built, other corporate interests had taken the lead in bringing the technology to the masses. Long in the hands of AT&T Corp., wireless technology had become the focus of a new generation of corporate mavericks. None of the ambitious, risk-taking proponents of wireless technology figured larger than Craig McCaw, certainly not in the scope of AT&T Wireless's history. McCaw was responsible for opening AT&T Corp.'s eyes to the potential of cellular phone service. In turn, McCaw was indebted to AT&T Corp. for providing the impetus that led to his

multibillion-dollar business empire. The paths of the two parties were intertwined, ultimately coming together to form AT&T Wireless.

McCaw, the son of an adventurous entrepreneur, traced the beginning of his own entrepreneurial career to 1966. When McCaw was 16 years old, his father sold him and his three brothers a small cable television system in Centralia, Washington. The cable system, located two hours south of Seattle, with 2,000 subscribers, marked the beginning of the McCaw cable business that ultimately was led by the second oldest of the McCaw brothers, Craig McCaw. By the beginning of the 1980s, after 15 years of development, McCaw Communications ranked as a modestly sized, regional cable operator, generating \$5 million in annual revenue--a fraction of the total collected by the company at the end of the decade. Robust financial growth was recorded by the company's cable operations during the 1980s, but the most potent source of revenue came from a new business area, one discovered by McCaw in 1981.

That year, McCaw unearthed projection figures filed by AT&T Corp. with the Federal Communications Commission. The document projected there would be 900,000 cellular subscribers in the United States by the beginning of the 21st century. McCaw was intrigued, convinced he would never achieve profound success in the cable television business. McCaw applied for cellular licenses, which during the early 1980s could be purchased for \$4.50 per person in the particular market, or per "pop." By 1983, McCaw Communications had been awarded licenses in six of the 30 largest U.S. markets.

1980s: McCaw's Expansion into Cellular Business

McCaw's initial investment in cellular licenses represented a sliver of the capital his company would pour into the nascent industry. McCaw succeeded in convincing bankers that cellular licenses were worth far more than \$4.50 per pop, making a strong enough case, with AT&T data used to project cash flows, that bankers accepted the licenses as collateral. McCaw borrowed heavily and embarked on a buying spree of numbing proportions, spending billions of dollars to acquire cellular licenses. In 1987, he sold his cable business for \$755 million, giving him more capital to invest in cellular licenses. By this point, the major telephone companies, AT&T included, had begun to appreciate the potential opportunities in the burgeoning cellular industry, but McCaw's early entry into the business put his deal-brokering efforts on equal footing with the telecommunications behemoths. The most significant deal of the decade, and a telling indication of McCaw's power, occurred in 1989, when the company, by then known as McCaw Cellular Communications, outbid Bell-South Corp. for control of LIN Broadcasting, which possessed licenses in Houston, Dallas, Los Angeles, and New York markets. McCaw Cellular Communications paid \$3.5 billion to acquire LIN Broadcasting, a price that represented \$350 per pop.

The 1980s witnessed Craig McCaw's voracious appetite to acquire cellular licenses. As the 1990s began, his focus shifted from acquiring licenses to signing up and servicing customers. McCaw's bevy of licenses put him in a position of power at the negotiating table, enabling him to buy, sell, and swap licenses with other parties so that he could

cluster his markets together. His aim was to create a seamless national network, an objective realized in 1990 when McCaw Cellular Communications, under the Cellular One brand, introduced wireless SS7 signaling, which allowed the creation of a North American network with national automatic roaming for wireless customers. As McCaw turned his attention to gaining and servicing subscribers, the ties to AT&T Corp. grew stronger mostly because McCaw needed help in servicing his customers. McCaw Cellular Communications, on its own, proved adept at acquiring cellular licenses. McCaw, with AT&T Corp. alongside, would endeavor to put the licenses to use.

In November 1992, McCaw sold one-third of his company to AT&T Corp., a \$3.8 billion deal that marked the first step toward the eventual union of the two companies. At the time of the deal with AT&T Corp., McCaw Cellular Communications was generating \$1.75 billion in annual revenue, boasting two million Cellular One subscribers. The year also marked the arrival of James Barksdale, who had spent the previous nine years as chief operating officer at Federal Express. Barksdale was hired as McCaw Cellular Communications' president, the post from which he would oversee, along with McCaw, the operations of the cellular company. One year later, in 1993, Barksdale's influence at the company promised to increase when the second largest merger in the history of U.S. business was announced.

1994 Merger of AT&T Corp. and McCaw Cellular Communications

The strategic alliance forged between McCaw Cellular Communications and AT&T Corp. quickly led to much closer contact. In 1993 a merger between the two companies was announced, an \$11.5 billion deal whose size ranked only behind the \$24.7 billion leveraged buyout of RJR Nabisco Inc. in 1989. The merger was completed in late 1994, creating AT&T Wireless Group, a wholly owned subsidiary of AT&T Corp. that ranked as the nation's largest cellular telecommunications company, nearly 30 percent larger than its closest rival.

Barksdale assumed control over the day-to-day operations of the new entity, but he did not exercise control for long. Barksdale soon left to take charge at Netscape Communications Corp., paving the way for the ascension of a McCaw Cellular Communications veteran, Steve Hooper. Hooper, who presided as president and chief executive officer at AT&T Wireless Group, joined McCaw Cellular Communications in 1982, just after McCaw had struck upon the idea of acquiring cellular licenses. Hooper served in several financial and regional operations capacities at the company before establishing himself at corporate headquarters in Kirkland, Washington. As the steward of AT&T Wireless Group, Hooper endeavored to mitigate the effect of the corporate culture clash of McCaw Cellular Communications being absorbed into AT&T Corp. His goal was to transform a regional cellular pioneer into a national giant without losing the entrepreneurial spirit that had made McCaw Cellular Communications a great success. Despite the contrasting personalities characterizing the two companies--the suit-and-tie hierarchy of AT&T meeting the more casual, opportunistic attitude of McCaw Cellular Communications--Hooper, like McCaw, perceived AT&T Corp.'s presence as invaluable. The development of a seamless, coast-to-coast, border-to-border wireless network

demanded the expertise and financial resources of AT&T Corp. In a March 3, 1997 interview with *Telephony*, Hooper explained: "From the business perspective, we've been able to fulfill the dream we set out to fulfill: to become a nationwide provider of wireless services. AT&T has allowed that to happen. Their balance sheet allowed us to buy those licenses. We couldn't have done that as a stand-alone business."

AT&T Wireless Group's crowning achievement during the 1990s occurred in 1998, although the company faltered noticeably in taking full advantage of its success. In 1998, the company introduced Digital One Rate, a nationwide calling plan that allowed subscribers to pay a flat fee with no extra charges for roaming or long distance. The demand for Digital One Rate was strong, its introduction characterized as groundbreaking within the industry, but AT&T Wireless Group was overwhelmed by its success. The launch of Digital One Rate led to an increase of more than 50 percent in subscribers, an increase that clogged the company's network. AT&T Wireless Group added only 350 new cell towers leading up to the introduction of Digital One Rate, which represented an increase of only 6 percent of the company's infrastructure.

In October 1999, AT&T Wireless Group gained a new leader, John D. Zeglis, who was appointed chairman and chief executive officer. Zeglis joined AT&T Corp. in 1984 as corporate vice-president of law and rose to general counsel in 1986, before being named president in 1997. One of Zeglis's primary tasks as AT&T Wireless Group's new leader was to deal with the complaints and frustrations caused by insufficient equipment expansion to contend with the surge in business triggered by Digital One Rate. As Zeglis focused his attention on this task, AT&T Wireless Group experienced profound changes that ultimately left it on its own.

Emergence of an Independent Company in the 21st Century

AT&T Wireless Group exited the 1990s with \$7.6 billion in annual revenue and more than 12 million subscribers. In early 2000, the public was offered the chance to invest its money in AT&T Wireless Group when AT&T Corp. offered its wireless operations as a tracking stock. Unlike a traditional "straight" stock, a tracking stock was designed to let investors invest in the performance of a particular operation without taking an equity interest in that operation. The offering, AT&T Wireless Group's initial public offering (IPO), gave willing investors equity in AT&T Corp., the parent company, and a stake in the performance of AT&T Wireless Group. The IPO was completed at the end of April 2000, a 360 million-share, \$10.6 billion offering that ranked as the largest IPO in the history of U.S. business.

The changes wrought by executives at AT&T Corp. did not end with AT&T Wireless Group's debut as a tracking stock. In October 2000, AT&T Corp. announced plans to split itself into four business lines: wireless, consumer, business, and broadband. Essentially, the company's high-ranking executives believed the company would be worth more as separated companies rather than as one entity. For AT&T Wireless Group, the announcement signaled a future as an independent company, a future that arrived on July

9, 2001. When the ties were cut, AT&T Wireless Services, Inc. emerged as an independent company.

Against the backdrop of the definitive changes that ultimately cast AT&T Wireless as a separate company, Zeglis struggled to improve the company's performance. When AT&T Wireless emerged from under the AT&T Corp. umbrella, the company ranked as the third largest national cellular carrier, with 16 million subscribers, trailing Verizon and Cingular, who boasted 27 million subscribers and 20.5 million subscribers, respectively. To combat the problems engendered in the months following the introduction of the Digital One Rate, Zeglis began investing heavily in new equipment to stem the loss of subscribers, which was referred to as a "churn" rate in the industry. In 2001, after the company recorded an alarming churn rate of 35 percent in 2000, Zeglis spent \$5 billion on new cell towers and other wireless infrastructure equipment. For 2002, he earmarked an additional \$5.3 billion toward wireless infrastructure, hoping to fix the company's persistent quality problems and to implement better technical standards.

Zeglis faced other challenges as he charted AT&T Wireless's course for the future. Competition among the six major cellular carriers had sparked price wars, which reduced subscription rates by 50 percent between 1999 and 2002. To exacerbate matters, subscriber growth fell by half during the first years of the 21st century, as market penetration neared 50 percent of the U.S. population. As a way out of the mess, Zeglis pinned his hopes on the introduction of new services that, it was hoped, would provide new streams of income. Toward this end, the company was gearing itself for the introduction of third-generation, or "3G," technology. With new technology, 3G handsets would be capable of receiving color video and connecting to the Internet at high connection speeds. Plans for the introduction of 3G service were scaled back at the end of 2002, however. In December, the company postponed the launch date by six months, scheduling the debut for the end of 2004. Instead of debuting the service in 13 cities, AT&T Wireless announced 3G service would be offered only in San Diego, San Francisco, Dallas, and Seattle. With much of its success set to be determined in the first decade of the 21st century, AT&T Wireless pressed ahead, with Zeglis staking his career on the company's ability to rise to the top of its industry.

Principal Subsidiaries: Roadstar Cellular Inc.; Wireless Data Inc.

Principal Competitors: Cingular Wireless; Sprint PCS Group; Verizon Wireless Inc.