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NATIONAL BROADBAND PLAN WORKSHOP  
CAPITALIZATION STRATEGIES FOR SMALL AND  
DISADVANTAGED BUSINESSES

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12 PANEL 1: PUBLIC FUNDING

13 Panelists:

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1 P R O C E E D I N G S

2 MR. REED: Good morning, everybody.  
3 Welcome. Thank you for braving our gorgeous  
4 autumn weather here in D.C. I think for those of  
5 you who have traveled, I know some of you have  
6 traveled from sunnier climes, so I hope it's going  
7 to be worth it for you. We've got a fantastic  
8 panel. I just wanted you welcome you to our  
9 Capitalization Strategies For Small Businesses and  
10 Diverse Businesses.

11 To my left is my colleague Barbara  
12 Kreisman. She is the Chief of the Media Bureau's  
13 Video Division, and we'll both be moderating  
14 today's discussions. We're looking forward to a  
15 lively discussion from private any  
16 government-sector leaders who will explore how  
17 small and diverse businesses can obtain the  
18 capital needed to enter and compete effectively in  
19 the telecommunications industry. We'll focus on  
20 the types of financing options available to small  
21 and diverse businesses that enable entrepreneurs  
22 to purchase and grow telecom facilities related to

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1 broadband tech, TV and radio broadcasting and  
2 common carrier facilities as well as the ownership  
3 of ancillary services that support telecom  
4 businesses.

5           We'll also examine legislative and  
6 regulatory solutions that might assist capital  
7 formation strategies that we'll be discussing here  
8 today. We're privileged to have two separate  
9 panels. Each should go about an hour and 15  
10 minutes. Our panelists will offer brief remarks,  
11 and following their presentations we'll have time  
12 for some discussion and Q and A. We invite  
13 questions from our audience. I have OCBO staff  
14 here, Calvin, Osborne and Gilberto de Jesus who  
15 will be circulating cards so that you can pass  
16 your questions up, and please do provide your name  
17 so I can identify the folks who are offering these  
18 questions. That at least will serve as a check on  
19 particularly controversial questions so that you  
20 know you'll be called out. We'll also be getting  
21 some questions from the internet. This is going  
22 to be streamed live, so hopefully that will

1 contribute to a robust discussion.

2 Our first panel is going to offer  
3 insight into what are the current difficulties and  
4 challenges experienced by small and diverse  
5 businesses and they attempt to obtain capital in  
6 the public sector, but before we do that, we're  
7 honored to have Commissioner Robert McDowell here  
8 who is going to offer some introductory remarks to  
9 start us off.

10 COMMISSIONER MCDOWELL: Good morning,  
11 everybody. Everyone's awake? That's good. It's  
12 a cold, wet morning, so instead of talking about  
13 things that are cold and wet, we can talk about  
14 cold, hard cash which is really what this is all  
15 about, and this is a terrific complement to the  
16 second half of the hearing that we had on October  
17 1 regarding capital formation vis-à-vis the  
18 Broadband plan. This is terrific because it  
19 zeroes in and gives small and disadvantaged  
20 businesses special attention today.

21 I want to thank you very much, Tom, for  
22 carrying it and putting it together and I'm really



1 extremely pleased. Let me offer some introductory  
2 remarks which I promise I will keep short. There  
3 is widespread agreement that access to capital is  
4 the biggest hurdle facing small business  
5 entrepreneurs including minorities and women who  
6 hope to enter and thrive in the communications  
7 arena. While the Commission considers what more  
8 it can and should do through rule-makings to  
9 promote diversity and foster the development of  
10 new entrants into the industries we regulate, I'm  
11 glad that with today's events we also are taking  
12 steps to try to help small businesses right now  
13 with some very practical assistance.

14           Throughout my time as a Commissioner  
15 I've consistently called for greater awareness of  
16 the financial realities that face small  
17 enterprises and entrants. In today's economy of  
18 course businesses of all sizes are struggling to  
19 survive through the worst economic downturn in  
20 generations. It may be rather cold and wet  
21 comfort for those in attendance today to know that  
22 many big companies now emphasize with small

1 entrepreneurs concerning cash flow and the state  
2 of balance sheets, but I'm hopeful that new  
3 opportunities for small entities may arise from  
4 today's challenging economic environment.

5 As I noted in other settings,  
6 deconsolidation seems to be the current trend in  
7 at least some of the communications sectors we  
8 regulate such as broadcasting. That development  
9 offers potentially attractive openings if new  
10 entrants can secure the financing to make it  
11 happen. Although the FCC cannot guarantee that  
12 all worthwhile business plans obtain the necessary  
13 capital, we can help you make some important  
14 connections. After all, allegedly, we do have  
15 expertise in facilitating communications.

16 I'm delighted at the quality of the two  
17 panels that Tom and his colleagues at OCBO have  
18 assembled for today's events. It makes eminent  
19 sense to kick off the discussion with information  
20 and perspectives from public sector financing  
21 sources, so I thank our colleagues and guests from  
22 NTIA, USDA and the SBA for engaging with us this

1 morning. I'm also pleased that OCBO in a very  
2 smart move invited veterans of OCBO who are now in  
3 the private sector to join the first panel and  
4 give you the real scoop and from both the public  
5 and private sector perspectives.

6 I'm also impressed with the array of  
7 private sector talent on our second panel. They  
8 represent an array of investment strategies which  
9 together should provide a very useful overview of  
10 the issues that potential investors consider.  
11 Perhaps the best part of today's event will be the  
12 one-on-one breakout sessions that will follow the  
13 two panel discussions. I'm very grateful to all  
14 the panelists who have agreed to stick around to  
15 meet with individual entrepreneurs and provide  
16 constructive advice regarding participants'  
17 business plans. Large group discussions are  
18 great, but there's nothing quite like a frank,  
19 quiet conversation about a specific proposal to  
20 hone in on the real challenges and promises of a  
21 particular idea. Because schools certainly seem  
22 to think so. Their curricula are build around

1 such opportunities. I'm pleased that the FCC can  
2 help provide similar support today.

3 Today's event should not be the end of  
4 the conversation. I hope that many of you will  
5 make individual connections that you will carry  
6 forward or carry you forward. The Commission for  
7 its part will continue to look for more openings  
8 to facilitate those connections while also working  
9 to advance other related small and diversity  
10 initiatives. For my own part, I look forward to  
11 continuing the dialogue with the Minority Media  
12 and Telecommunications Council and others about  
13 such matters as enforcement of the Commission's  
14 ban on no urban, no Hispanic dictates in  
15 advertising, and renewed advocacy before Congress  
16 for a legally sustainable tax certificate program  
17 to promote ownership of communications companies  
18 by economically disadvantages businesses.

19 Without further ado, I'll turn it back  
20 over to you Tom, and/or our panelists, the folks  
21 with the concrete, real-world information about  
22 financing new and fledgling businesses. Today we

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1 are letting the water flow from the sky. Let's  
2 also hope that advice and capital flow as a result  
3 of today's panel.

4 MR. REED: Thank you, Commissioner. I'm  
5 glad the Commissioner also mentioned our breakout  
6 sessions. Karen Beverly of our office is here.  
7 For those of you who have signed up, she's in the  
8 back. For those of you who have signed for the  
9 sessions, she's going to be distributing, and  
10 we'll correct me in my announcements if I'm wrong  
11 here, at some point the sign-up sheets so we'll  
12 have folks who will be able to direct you to the  
13 offices that you'll be going to. I think some of  
14 the sessions will be up on 4, but most of them  
15 will be down here right around the corner, very  
16 easy to get to after lunch. We'll provide more  
17 specific information as we get further along in  
18 the day.

19 Let's proceed with our panel. Again we  
20 are extremely privileged to have such a  
21 distinguished group here of experts. Let me start  
22 with Dr. Gary Bojes who is with the Rural Utility

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1 Service with the Department of Agriculture. He is  
2 a senior level program and policy adviser at the  
3 Department of Ag that supports RUS. The Rural  
4 Utility Service provides federal funding programs  
5 for the electric, telecom and water and  
6 environmental programs in rural America with a  
7 large portfolio of infrastructure investments.  
8 Dr. Bojes brings over 25 years of experience in  
9 finance, accounting, investment, banking and  
10 management consulting with previous regulation and  
11 public service for the FDIC. Dr. Bojes will  
12 discuss the RUS programs that provide funding for  
13 telecom ventures. Dr. Bojes?

14 DR. BOJES: Good morning. Glad you're  
15 all here. I am very excited and also humbled to  
16 be here, excited as you'll see in my enthusiasm  
17 and hopefully will be able to meet you this  
18 afternoon is the more exciting aspect, but humbled  
19 in that you asked me to participate and it was  
20 because of a couple of other sessions that I have  
21 that I was invited back so there must be something  
22 about that. I'm with a really distinguished panel

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1 and I'm kind of the small guy on the team.

2 Just to let you know, I think up front  
3 it's a really important message that I want to  
4 know, if anybody is being discriminated against in  
5 any rural developments programs or USDA programs,  
6 I would like to know about it, Dr. Leonard who is  
7 our civil rights coordinate would also like to  
8 know about it, Jonathan Adelstein, former FCC  
9 Commissioner who is my boss who is the Rural  
10 Utility Service Administrator now, he would like  
11 to know about, and Tom Vilsek, our Secretary at  
12 the top of USDA would like to know about it. Let  
13 me just put that forward. We believe we have a  
14 pretty good outreach program to make sure that we  
15 haven't missed all of the target groups and I want  
16 to make that one of our first messages before I  
17 get into our programs.

18 Thank you very much for coming. I don't  
19 know if you know, do most folks know about USDA  
20 and rural development in general? Rural  
21 development if you picture it was to support the  
22 farming communities. So, yes, farming gets all of

1 its from USDA programs and it's very much on  
2 everybody's focus because we get our energy by  
3 food, and so we call it an energy company as well,  
4 but it's the people's agency. It was a twinkle in  
5 Abraham Lincoln's eye and it was started just with  
6 cooperatives getting together and enforcing or  
7 promoting issues of getting groups of farmers  
8 together to they could get their job done. That's  
9 actually how our Rural Utility Service was formed.  
10 It was energy and justice. There were utility  
11 companies that were serving our urban cousins and  
12 our rural cousins weren't getting the same  
13 services, and so that's what started the Rural  
14 Electrification Act, we've got to get these  
15 services out to Americans who aren't getting those  
16 services. In 1933 even besides the Great  
17 Depression at that point in time, we had a major  
18 dust bowl, we had ruined our own land so we looked  
19 like a developing country out in rural America,  
20 and there was a lot of out migration from those  
21 rural communities to the urban communities, and  
22 part of what our mission was was to get that

1 wealth back into the hands of those communities.  
2 In rural development we could build a community  
3 from the ground up, so we have programs such as  
4 electric infrastructure, water infrastructure,  
5 telecommunications infrastructure, and that's  
6 Rural Utility Service where I work.

7 We have rural because services which is  
8 targeted at small businesses and not just  
9 telecommunications businesses, but all of the  
10 businesses that are needed in a rural a community.  
11 So if it's a restaurant, a hotel or just a  
12 cooperative, you know we're used to the wine  
13 cooperatives, it could be a grape jelly  
14 cooperative, something that takes the product from  
15 the raw material and agriculture and turns it into  
16 a product that consumers want. So that's our  
17 rural business programs. They are very into  
18 promoting renewable energy and energy programs at  
19 this point in time. They also did  
20 telecommunications loans, so they have done  
21 telecommunications loans outside the Rural Utility  
22 Service which is my program.

1           On the other side we have another sister  
2 agency that does rural housing and community  
3 facilities and they could help in any facility  
4 within a community that needs it. So that could  
5 be fire and safety and all kinds of courthouses  
6 and what's needed for schools and what not.

7           But I'd like to tell you about rural  
8 utility's telecommunications services. First off,  
9 we have an infrastructure program that's been  
10 around since 1949, so we are in the business of  
11 doing this and we do this all the time. We have a  
12 broadband access loan program and a community  
13 connect grant program, so those communities that  
14 don't have services, we will try to make an  
15 outreach for you. These are not Recovery Act  
16 programs. We get billions of dollars every year  
17 to put out and we do that every year. We have a  
18 distance learning and telemedicine program focused  
19 at those particular groups to get schools and to  
20 get medicines and those connections with rural and  
21 urban, and of course we have the American Recovery  
22 Act of 2009. I know that's exciting for

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1 everybody, and right today you could go to our  
2 website and get a request for information, it will  
3 be in the Federal Register, because we're doing a  
4 second round of Recovery Act funding and we need  
5 your message to be screamed if we haven't hit your  
6 area. If you feel like there's something we ought  
7 to know in that process, please get it to us, and  
8 the time to act is now. With that I'll turn it  
9 over to my colleagues.

10 MR. REED: Thank you, Gary. Next on our  
11 panel is Maureen Lewis who is the Director of the  
12 Minority Telecommunications Development Program at  
13 NTIA which is the National Telecommunications  
14 Information Administration. She has been in that  
15 role since January 2000. She is responsible for  
16 developing policy and analyzing proposed  
17 legislation and regulations to increase minority  
18 ownership of broadcast and telecom enterprises.  
19 She wrote a report entitled "Changes, Challenges  
20 and Charting New Courses: Minority Commercial  
21 Broadcast Ownership in the U.S." She also serves  
22 as a senior policy analyst and advises on such

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1 issues as media, broadband deployment, federal  
2 right of way, internet domain names and small  
3 business development. In 2007, Maureen was  
4 detailed for 18 months to NTIA's TV converter  
5 coupon program as the technical quality liaison to  
6 facilitate certification of digital to analog  
7 converter boxes by assisting electronics  
8 manufacturers with technical issues affecting  
9 coupon eligibility. She also supported the  
10 program director in monitoring the Contractor's  
11 Program Administration. Previously Maureen served  
12 as general counsel of the Alliance for Public  
13 Technology where she successfully petitioned the  
14 Federal Communications Commission to initiate a  
15 proceeding to evaluate the pace of broadband  
16 deployment in the U.S. Maureen will discuss the  
17 Broadband Technology Opportunities Program and the  
18 process by which NTIA is handling applications and  
19 making grants.

20 MS. LEWIS: Thank you very much for that  
21 introduction, Tom, and for the invitation to be  
22 here. I'm pleased to represent the Department of

1 Commerce and Secretary Gary Locke, and my  
2 Assistant Secretary Gary Strickland, to talk to  
3 you about the Broadband Technologies Opportunity  
4 Program.

5 It was my intention to use a PowerPoint  
6 presentation today, but I'm looking at what I've  
7 printed and what's on the screen and they're not  
8 quite the same. So I'll skip the PowerPoint  
9 presentation and just speak from my notes.

10 You have heard about the Recovery Act  
11 and it had a number of very important purposes, to  
12 create jobs, to promote economic recovery, to try  
13 to encourage the investment in some real important  
14 infrastructure in this country including  
15 broadband. Another important aspect of the  
16 Recovery Act is to try to stabilize state and  
17 local budgets.

18 The Recovery Act authorized two very  
19 important broadband initiatives. It provided \$7.2  
20 billion in funding to promote broadband access  
21 across the United States and you've heard my  
22 co-panelist Dr. Bojes talk about one of them, the

1 Broadband Initiatives Program at the Rural Utility  
2 Service. The Recovery Act authorized \$2.5 billion  
3 for that program. It's a loan program, a  
4 loan-grant combination program, but I won't talk  
5 about that. I'll focus my remarks on the  
6 Broadband Technologies Opportunity Program which  
7 is administered by NTIA which is the president's  
8 adviser on telecommunications matters.

9 \$4.7 billion was authorized to NTIA for  
10 the promotion of broadband deployment. Up to  
11 \$3.75 billion will be awarded for infrastructure  
12 grants, another at least \$200 million for public  
13 computing center capacity, at least \$250 million  
14 in grants will be awarded for innovative programs  
15 to promote and encourage the adoption of broadband  
16 technology. Then there's a separate program for  
17 broadband mapping that's a \$350 million program  
18 that will provide grants to entities within a  
19 state to allow each state to map its broadband  
20 assets.

21 The BTOP program as we're fond of  
22 calling it is intended to provide access to

1 unserved areas of the United States, to improve  
2 access in underserved areas, to provide broadband  
3 education and awareness as I said to promote the  
4 adoption of broadband technologies, to improve  
5 access to broadband by public safety organizations  
6 and to stimulate demand for broadband, to promote  
7 economic growth and to create jobs. Remember,  
8 this is a Recovery Act program and so the  
9 underlying purpose is to try to stimulate the  
10 economy which means that BTOP is being  
11 administered very quickly in order to try to get  
12 grants out to the public as quickly as possible to  
13 try to get this infrastructure in place to help  
14 promote jobs.

15           The grants can be used for a number of  
16 purposes, to purchase equipment, instrumentation,  
17 developing networking technology, to buy hardware  
18 and software, to buy infrastructure, all for the  
19 purpose of promoting broadband, and to promote and  
20 construct infrastructure. All types of entities  
21 are eligible for grants including state and local  
22 governments, companies, for-profit companies and

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1 nonprofits as well.

2 My time is running out, but one thing I  
3 want to make sure that you understand is that the  
4 Recovery Act requires that the assistant secretary  
5 in awarding grants consider whether or not an  
6 applicant is a socially and economically  
7 disadvantaged small business, so additional  
8 consideration is given to those applications that  
9 are submitted by SDBs or for applicants who  
10 partner with SDBs. So we're very anxious to  
11 encourage the participation of socially and  
12 economically disadvantaged businesses in this  
13 program. I wanted to mention that there is a  
14 request for information as you've heard that will  
15 be soliciting public comment on how to improve  
16 both the BTOP and BIP programs. I encourage you  
17 to go to [broadbandusa.gov](http://broadbandusa.gov) where you will find not  
18 only the request for information, but also updates  
19 on developments in the program. I want lastly to  
20 let you know that there will be a final round of  
21 funding that will probably be announced sometime  
22 in the winter. The BTOP grant awards are likely

1 going to be announced sometime beginning in  
2 December. So with that I'll turn it over to my  
3 colleagues, and thank you for your attention.

4 MR. REED: Thank you, Maureen. Our next  
5 panelist is Frank Montero. Frank is currently  
6 co-managing partner of Fletcher Heald & Hildreth.  
7 His practice focuses on telecom, broadcasting,  
8 media and technology. Frank's practices includes  
9 FCC regulatory counseling, corporate finance,  
10 asset and securities acquisitions, intellectual  
11 property, real estate and commercial transactions.  
12 Frank was an appointed member of the Federal  
13 Advisory Committee on Diversity for Communications  
14 in the Digital Age or Diversity FACA as we call  
15 it. He has served as the Director of the FCC's  
16 Office of Communications Business Opportunities,  
17 my predecessor. Frank will discuss the decline in  
18 valuation of telecom companies that specialize in  
19 Spanish-speaking programming. He will address  
20 problems that affect the different levels of small  
21 telecom companies as well as any unique  
22 difficulties encountered by companies that

1 broadcast in the Spanish language.

2 MR. MONTERO: Thank you, Tom. First of  
3 all, thank you for inviting me. It's a pleasure  
4 to be here. This is really wonderful opportunity  
5 to air some of the issues that are really, really  
6 critically important.

7 I had a very interesting experience  
8 recently where I was considering what a difference  
9 10 years makes. Think of where the market was  
10 just 10 years ago. I was looking at a letter that  
11 I wrote to the FCC bemoaning the fact that there  
12 was a lack of -- this was behalf of the Spanish  
13 broadcasters at the time and I was bemoaning the  
14 fact that the markets were depressed, valuations  
15 were down, there was a gross lack of capital in  
16 the marketplace, real estate values had totally  
17 collapsed. The date of the letter was April 1991.  
18 Ten years later look at where we were, and now 10  
19 years later we're kind of like back where we  
20 started.

21 I will tell you that many of the  
22 problems that existed in 1991 are problems that



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1 still exist today, and while there were some  
2 remedial steps that were taken then that addressed  
3 them and there were some mechanisms in place to  
4 assist, some of those are not there anymore and  
5 then others just don't work anymore because of the  
6 way the marketplace has changed. Back in 1991 the  
7 SBA at that time wasn't making any loan guarantees  
8 for medium broadcast companies and we worked with  
9 the SBA to change that rule. They had a rule  
10 called the opinion molder rule that wouldn't allow  
11 any guarantees to media and broadcasting companies  
12 and we changed that obviously, and we have a tax  
13 certificate policy that was in place that we no  
14 longer have. But other things that came into  
15 place, relatively new venture capital groups  
16 started to work. BroadCap had been in place that  
17 John Oxendine started actually at an NAB  
18 convention, but little by little other groups,  
19 Opportunity Capital, Cincom, other members of what  
20 is now the National Association of Investment  
21 Companies, slowly started to form and create a  
22 pool of capital where there had been none.

1           I think that we have to take similar  
2           steps now to try to fill these gaps, but perhaps  
3           because the problems are bigger, the dollar values  
4           are greater and because the marketplace has  
5           changed so dramatically, they have to be perhaps a  
6           little more aggressive. In the late 1990s and  
7           early 2000s, there was a lot of venture capital  
8           money out there on the Spanish and really not just  
9           Hispanic media, but what I would what refer to as  
10          minority ethnic media whether it was Asian  
11          targeted programming, urban African American  
12          targeted programming, Hispanic targeted  
13          programming, they were niche markets that venture  
14          capital funds liked and they were able to fund a  
15          lot of these acquisitions you saw at that time of  
16          the growth of a lot of new regional groups. You  
17          had Bustos Media on the West Coast, you had Tama  
18          Broadcasting in the Southeast, you had Border  
19          Media in Texas, multicultural. Then they were  
20          able to go with that venture capital and go to the  
21          senior lenders, usually large national groups that  
22          were experienced in lending to the media markets

1 that knew how it worked, they knew the  
2 limitations, but they new how to structure the  
3 loans in such a way so that there was a certain  
4 degree of comfort, groups like CIT and Wells Fargo  
5 Foothill and others, DB Zwirn, some hedge funds  
6 who could structure it.

7 Obviously what had happened is that they  
8 were highly leveraged transactions. They bought  
9 maybe not at the very top of the market but pretty  
10 high up there. They paid pretty high multiples.  
11 When the bottom fell out now they are totally  
12 overleveraged, they are in actual default or in  
13 covenant default and they're all undergoing  
14 reorganization and receivership.

15 I think one of the most important places  
16 to fill the gap on this credit crunch that we're  
17 having now and one of the greatest untapped  
18 resources that we have right now are local and  
19 regional banks. Local and regional banks really  
20 have not gotten into the media and broadcasting  
21 game largely because they are just not familiar  
22 with the market and the idea of loaning to a

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1 company that is, A, regulated that they don't  
2 understand the regulations, B, has no inventory,  
3 there's not a parking lot full of cars or a  
4 warehouse full of refrigerators and that makes  
5 them nervous. I think organizations like Okbow  
6 which is an outstanding organization if I may say  
7 as a former director really can be an outstanding  
8 vehicle to work with regional banking associations  
9 to educate them on getting into the media markets,  
10 because up until now the senior lenders have been  
11 large national hedge funds or large national  
12 banks, but it's the local banks that really know  
13 these small businesspeople who are buying the one  
14 or two stations here or there. These are people  
15 who have their bank accounts with them. They've  
16 got their mortgage with them. They feel very,  
17 very comfortable with that entrepreneur and would  
18 loan if they just felt a little more comfortable  
19 about the industry that they were looking to get  
20 into.

21 Things such as the inability to take a  
22 security interest in a license scares them. The

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1 idea that they can't foreclose without getting  
2 governmental approval. That scares them. Things  
3 like bans on reversionary interest, and I won't go  
4 into the details of that, but there are certain  
5 limitations on how you can take back a broadcast  
6 facility, that all scares them. But I think if  
7 they are educated, they can feel more comfortable  
8 with it. It's amazing that when I sit down and  
9 talk with a local banker and I explain to them how  
10 they've been structured and how these things work,  
11 they feel more comfortable. I think that when  
12 these companies that are now in distress pop out  
13 of their trusteeship and receiverships you're  
14 going to see the valuations come down and I think  
15 a lot of entrepreneurs see a lot of good deals out  
16 there. There's a lot of inventory of broadcast  
17 and for that matter telecommunications inventory  
18 out there that a lot of people see as undervalued  
19 and they could take advantage of it.

20 So I think right now we're going through  
21 a very, very difficult process, but I think the  
22 opportunities exist if we're able to bring in a



1 lot of untapped resources of capital into the  
2 marketplace to fill in what has traditionally been  
3 a very difficult funding gap for a new entrant  
4 which is between the roughly \$1 million to say \$8  
5 million range. Below that they may be able to get  
6 an SBA guarantee or collateralized loan with real  
7 estate. Above \$8 million you have organizations  
8 who want you to go in and buy eight stations in a  
9 market and a new entrepreneur is not ready to do  
10 that. They have their niche programming, they're  
11 ready to go, that's a dry spot and I think that is  
12 the dry spot that the local and regional lenders  
13 can really fill and with that I'll stop.

14 MR. REED: Thank you, Frank. Our next  
15 panelist is Jenell Trigg who is a member of Lerman  
16 Senter, a former broadcast television marketing  
17 exec spanning a 16 year career in Chicago and  
18 Baltimore. Jenell became a member of Lerman  
19 Senter in 2006 after serving as of counsel for  
20 several years. In addition to her varied practice  
21 in the broadcast, wireless, cable and telecom  
22 industries, Jenell specializes in offline and

1 internet privacy and data security issues and  
2 government regulation of the internet. Jenell is  
3 accredited as a certified information privacy  
4 professional through the International Association  
5 of Privacy Professionals. Jenell is also a  
6 recognized authority on small and minority telecom  
7 business issues from an industry, regulatory and  
8 legislative perspective and has served on the FCC  
9 Federal Advisory Committee for Diversity for  
10 Communications in the Digital Age as a subject  
11 matter expert.

12 Jenell is going to discuss the Telecom  
13 Development Fund, she has written extensively on  
14 TF, which regard to qualification criteria and the  
15 process by which funding is available to telecom  
16 entities.

17 MS. TRIGG: Thank you, Thomas. I  
18 appreciate the invitation. Good morning,  
19 everyone. I'd also like to thank Commissioner  
20 McDowell for his leadership and support on these  
21 issues. He's been a real advocate on behalf of  
22 small, minority and women owned businesses and I

1 certainly appreciate that. It's good to see some  
2 old friends from the FCC as another veteran of the  
3 Office of Communications Business Opportunities  
4 and the Small Business Administration. I am glad  
5 to talk about access to capital.

6           Small businesses can have big plans.  
7 There are three major obstacles to fulfilling that  
8 reality. One, access to capital, two, access to  
9 capital, three, access to capital. It's not  
10 surprising that these major issues were present  
11 with the passage of the 1996 Telecommunications  
12 Act. This was one of the number one issues.  
13 There was a concern that the Act which was  
14 characterized as sweeping away 62 years of  
15 telecommunications policy and paving the way for a  
16 more dynamic superhighway, and in light of that  
17 revolutionary shift in paradigms and industry  
18 convergence, small businesses would be left by the  
19 side of the road. The concern in Congress saw  
20 that there had to be some funding mechanism  
21 ideally already inherent in the FCC's auction  
22 process to help small businesses particularly

1 minority and women owned businesses which have  
2 greater needs for access to capital. Thus the  
3 formation of the Telecommunications Development  
4 Fund. We simply call it TDF. The purpose of TDF  
5 as mandated by Congress is to promote access to  
6 capital for small businesses in order to enhance  
7 competition in the telecommunications industry,  
8 and telecommunications is defined by broadly in  
9 this sense, to stimulate new technology  
10 development, promote employment and training, and  
11 to support universal service and promote delivery  
12 of telecommunications services to underserved,  
13 rural and other areas.

14 TDF is capitalized primarily on the  
15 interest earned by up-front payments, up-front  
16 auction payments. This is money that potential  
17 bidders have to submit to the FCC to the Mellon  
18 Bank, it ultimately goes to the Treasury  
19 Department, to qualify to bid on particular  
20 spectrum actions and there have been quite a few  
21 spectrum actions since 1993 when Congress  
22 authorized the FCC's Competitive Bidding

1 Authority.

2 Additional funds can be raised by TDF  
3 from return on their investments and other  
4 traditional forms of capital. What's interesting  
5 about TDF is that it's really a public-private  
6 hybrid. Again it's a private equity and venture  
7 capital firm which operates like a traditional VC  
8 in some ways, but money comes from arguably public  
9 sources. TDF has not raised any additional funds  
10 but for the auction revenue. There's a concern  
11 quite frankly surrounding how TDF is capitalized  
12 in that the statute restricts the types of funds  
13 that TDF earns interest on. Prior to the 1996  
14 act, believe it or not, billions of dollars that  
15 was spent auctions that people paid to acquire  
16 spectrum earned zero interest for the governments.  
17 Those monies benefited Mellon Bank only. So at  
18 least we're getting interest earned from the  
19 up-front payments and TDF is capitalized today for  
20 \$80 million, but that's a drop in the bucket when  
21 it comes to acquisitions certainly of broadcast  
22 licenses, wireless licenses and other forms of

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1       licensing, but it's a lot of money to a small  
2       business that is an early startup and that needs  
3       500 to \$5 million in startup seed capital.

4               There are some statutory limitations as  
5       well in terms of how TDF can provide loans. In  
6       fact, one of the highlights of the 1996 act and  
7       formation of TDF was that it would provide low  
8       interest loans to small business, then too still  
9       an issue for small businesses certainly before  
10      this credit crunch today.

11              TDF is required to adhere to the  
12      statutory requirements of the Federal Credit  
13      Reform Act of 1990 and therein lies the problem.  
14      You have to be credit worthy, and if you are a  
15      startup new business you don't have revenue yet or  
16      payments to service that debt, and most likely in  
17      some instances you don't have the assets or  
18      collateral yet to service a loan. So the TDF has  
19      not adopted a loan process. They are purely in  
20      equity investment, and that's another area that  
21      hopefully legislation can fix, how the loan  
22      program would help TDF.

1                   Priority areas for their investment  
2 themes, they operate as I said like standard  
3 venture capital firms. They are looking for an  
4 exit strategy, your business opportunities, how  
5 you can make a difference in your market, your  
6 management talent, but what's unique about TDF is  
7 that they have certain investment criteria that  
8 are coordinated to also qualify for their  
9 statutory mandate. They're looking for eight  
10 different areas, companies, small business  
11 companies that fit within these themes, to  
12 increase broadband access, transition to DTV and  
13 HDTV, homeland security, public safety and  
14 disaster recovery, to protect intellectual  
15 property, spectral efficiency, compliance which is  
16 compliance with some of the new requirements under  
17 Sarbanes-Oxley or privacy and data security laws  
18 and energy efficiency. TDF has invested in 13  
19 portfolio companies since 2005. They're operating  
20 on their second fund. What's very interesting too  
21 is that they have a foundation which also provides  
22 financial support and grants to not for-profit



1 groups, educational associations and for training,  
2 and you'll find a great selection of some of the  
3 nonprofit groups they have helped particularly to  
4 bridge the digital divide, underserved low income  
5 housing. In Baltimore for example they're  
6 providing WiFi services and training for the  
7 internet. They've also done Alaska Marketplace  
8 looking for Native American investments and  
9 entrepreneurs. And I'm very proud to say they are  
10 also a major supporter of the broadcast leadership  
11 training program that is administered by the  
12 National Association of Broadcaster's Educational  
13 Fund, I am an alumni of the BLT program as well,  
14 and that's where TDF is really promoting broadcast  
15 ownership, entrepreneurship and investment. Thank  
16 you.

17 MR. MONTERO: They used that for  
18 preparation.

19 MS. TRIGG: They did, and that was under  
20 the previous administration. It's a little out of  
21 date. It's not been updated yet, telling VCs what  
22 they want to see, what they want to know. TDF is

1 making a difference albeit not in the way that  
2 Congress had envisioned in the sense that it would  
3 help broadcast licensing, but it really is in many  
4 ways helping some of the new entrepreneurs and the  
5 new technology areas get their foot in the door at  
6 the early stage of these industries. Thank you.

7 MR. REED: Thank you. Major Clark from  
8 the SBA. We are privileged to have him here to  
9 talk to us about SBA funding programs. Major is  
10 the Assistant General Counsel for he Procurement  
11 Policy in the Office of Advocacy at the SBA. He  
12 has 33 years of experience in corporate  
13 administration, business development,  
14 congressional legislative operations, urban  
15 planning, housing, economic development and as an  
16 educator. He has 11 years of college teaching  
17 experience and 10 years as an associate professor  
18 in the Graduate School of Urban Studies and Human  
19 Development at Morgan State University, including  
20 Chairman of the undergraduate Urban Studies  
21 Program. He has been a national speaker on  
22 various topics including small business, urban

1 development and planning, land use law, consumer  
2 law, housing law, transportation and economic  
3 development strategies. Major?

4 MR. CLARK: Thomas, thank you, and  
5 distinguished thank you as well, and guests.

6 I'm very honored to be here especially  
7 with the panelists that are here. Let me do a  
8 couple quick things. I've been watching you the  
9 whole time and you keep flipping those cards. You  
10 do have a call outside, so if you want to go  
11 outside and take that call just for a moment  
12 because I may go a little bit longer. I'm a  
13 professor, lawyer and I'm old, so just work with  
14 me on this.

15 I am here not totally representing the  
16 Small Business Administration, but more  
17 specifically representing to some extent the  
18 Office of Advocacy, and we have an alum here from  
19 the Office of Advocacy. This office was created  
20 in the late 1970s by Congress to serve as an  
21 independent component and a voice for small  
22 business, so we do a lot of things not necessarily

1 with SBA, but we try to work with SBA as much as  
2 possible on various issues. The Office of  
3 Advocacy has a chief counsel that's appointed by  
4 the president with senate confirmation as the  
5 administrator of SBA is nominated by the president  
6 with senate confirmation. So to some extent we  
7 say that are independent. That line gets very  
8 fuzzy when it comes to the budget because SBA  
9 still has a little bit of control over our budget,  
10 but we do operate independent. We operate  
11 primarily in three areas or two areas primarily.  
12 One area is in economic research, and if you go on  
13 our website you will see tons and tons of research  
14 that has been done by various outstanding  
15 researchers across the country some on  
16 telecommunications and other issues. We every  
17 year go to the street and request proposals from  
18 the private sector on various topics.

19 The other area is the regulatory area  
20 and this is the area that Congress in 1980 asked  
21 the SBA to be the watchdog of the Regulatory  
22 Flexibility Act and this act requires us to look

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1 at agencies as they attempt to promulgate  
2 regulations to make sure those regulations have a  
3 minimum impact on small business. To that extent,  
4 while I'm honored to be here today, the true  
5 person in our office who is the Assistant Chief  
6 Counsel for Telecommunications is Cheryl Johns.  
7 She is the one who writes the letters and she is  
8 the one who fielded Osborne's call when he needed  
9 someone to come to this panel and she is one who  
10 convinced me to come here. At 4 o'clock this  
11 morning I woke up in panic. I was looking at what  
12 I was going to say this morning and in the process  
13 of doing that we had a power outage in our  
14 neighborhood, so part of that power outage I think  
15 was frankly was caused by the fact that I went  
16 back in time, and you started talking about 1991,  
17 I went back to 1980. At that point in time I was  
18 Chief of Staff of Congressman Perry Mitchell and  
19 we had numerous hearings on small business,  
20 minority business telecommunications. In this  
21 particular document there are two hearings that we  
22 held and the issues we faced then are the same

1 issues today, access to capital, and someone said  
2 availability, but access to capital. We talked  
3 during that period of time about the distressed  
4 sales and the tax certificates and those types of  
5 things, but again trying to find ways to find  
6 opportunities for minority businesses. Also  
7 during that period, Frank, as you amply said, we  
8 created or formed the Minority Enterprise Small  
9 Business Investment Companies partially as an  
10 answer to try to find money for minority  
11 businesses. We also were very aggressive in  
12 trying to create some investment bankers and also  
13 very aggressive in trying to support the one  
14 minority stock brokerage company that was on Wall  
15 Street at that time, Daniels and Bell, because we  
16 know that if in fact there was going to be success  
17 in the minority business community it wasn't just  
18 coming from SBA making loans, it was coming from  
19 the ability of these deals that we put together  
20 and taking these deals public and moving those  
21 things forward.

22 Unfortunately, where we are today, we

1 haven't come a long way. We have come a long way,  
2 but we haven't come to where we need. In this  
3 book here I looked at a study and I was surprised  
4 to find that OMBE, and that's the Minority  
5 Business Development Agency for you new folks,  
6 found in 1972 that the gap between minority and  
7 majority was a hundred and six three point five  
8 billion and increasing at a rate of thirteen point  
9 eight billion per year, and this was 1972  
10 statistics. So when we talk about investment,  
11 when we talk about where the money may be, we also  
12 have to look at the characteristics of those who  
13 are trying to get the money and the gap then  
14 between minority businesses and the majority  
15 community is so great that when we talk about  
16 state banks or regional banks, we also have to  
17 look at whether or not these businesses have the  
18 ability to carry that process forward. This book,  
19 by the way, as we talk about where to go forward,  
20 there is a book written by Robert Fairly and  
21 Alicia B. Robb that just came out last year. It  
22 was partially contracted by the Minority Business



1 Development Agency. It's an excellent book that  
2 talks about race and entrepreneurial success and  
3 it looks at the gaps between minority businesses  
4 and majority businesses, it look at how to bridge  
5 those gaps and what's necessary, because I submit  
6 to each of you that we can talk about your fund  
7 and we can talk about regional banks, but until  
8 minority businesses are able to come to the table  
9 with sufficient equity in and of themselves  
10 depending on how that equity is defined, we are  
11 going to be continuously behind the 8-ball trying  
12 to put these deals together. I'm not the telecom  
13 expert, Cheryl is, but she tells me that in 1980,  
14 a medium sized radio station was about \$30 million  
15 to purchase and I'm assuming that that has  
16 probably tripled by now.

17 MS. TRIGG: Add a zero in some  
18 instances.

19 MR. CLARK: So when we talk about this  
20 financing, we can talk about SBA. SBA has a 7(a)  
21 guaranteed loan program and it will loan you money  
22 up a certain point and guarantee you money up to a

1 certain point. You have to get the bank to make  
2 that loan. Again, if the bank is looking at your  
3 assets and your net worth and whatever you're  
4 bringing to the table is at a minimum, no matter  
5 how great FCC and the world says that minorities  
6 should be into telecommunications, the banks  
7 simply are not going to make those loans.

8           So we have to find ways. We have to  
9 become creative yet again. I started in 1980. At  
10 work they affectionately called me Pop-Pop because  
11 I usually take the young attorneys back to a  
12 period of time and they sit there patiently and  
13 they listen to me, but that is the foundation that  
14 we have and that's where we have to go forward.  
15 For example, I remember when we looked at the  
16 ERISA act and this was at a point in time in which  
17 the pension funds were collecting all of this  
18 money from public employees and they did not want  
19 to put any of that money back into minority  
20 investment companies. We were able through  
21 Congress to convince the pension funds and ERISA  
22 to allow some of these funds to be invested back

1       into minority businesses. That's gone away again  
2       because we put a cap on municipal financing and  
3       municipal bonding, so a lot of the minority  
4       investment companies that were out there making  
5       these types of deals are no longer there. We have  
6       to find some additional ways to bring these  
7       opportunities back to the table. Otherwise,  
8       Maureen, what you're doing at BTOP and others,  
9       you're doing a tremendous job, but we're hitting  
10      ourselves in the face.

11                In conclusion, I know you're getting to  
12      do the 1 minute sign to me, part of what we're  
13      trying to do and what we have to do in terms of  
14      trying to find minority financing, we also in this  
15      particular industry more I think than any other  
16      industry, and I'm open for discussion on this, the  
17      definition of a minority because defined as an  
18      SDB, small social economically disadvantaged  
19      business that's pegged to the SBA standard will  
20      not get you sizable competitive companies in the  
21      telecommunications industry. Why? You got two  
22      primary reasons. One, if it's a small because it

1 has what we call a size standard cap. That means  
2 that it could only go to a certain level and be  
3 eligible for funds up to that level based on SBA  
4 standards. The second, if it is an SDB and we're  
5 looking at the SBA standards, an SDB, for example,  
6 an 8(a) company that certifies to be an SDB has a  
7 maximum of \$250,000 net worth for them to be  
8 eligible for the program. I don't know what  
9 that's going to get you today. If you're not an  
10 8(a) but you're just a general SDB, the admission  
11 to that program is \$750,000. Again, very low in  
12 terms of the standards of the industry.

13           There are some examples of where these  
14 have been changed. For example, in the  
15 transportation industry's Highway Concession  
16 Program they have recently been able to increase  
17 the net worth value for minorities to participate.  
18 I submit to you that if in fact there is  
19 seriousness about minorities participating in this  
20 industry that you need to look at how you're going  
21 to change some of these barriers. You need to  
22 also look at what is happening in the Small

1 Business Innovation and Research Program, and this  
2 is my final word. That program has all of a  
3 sudden, Frank, found venture capitalists from the  
4 research industry that would like to make  
5 investments in small businesses and there is an  
6 issue of 51 percent owned and controlled for that  
7 because to be small. There is an aggressive  
8 movement afoot to allow some of these large, large  
9 super-research venture capital companies to invest  
10 and own ownership interests in these small  
11 businesses that transcends the 51 percent. So it  
12 may very well be that in the telecom business as  
13 we're looking at it today that to be a small  
14 business and say you have to be 51 percent owned  
15 and controlled may not necessarily be the bookmark  
16 that you really need. It may be some ownership  
17 interest less than that but still gives you the  
18 ability to fashion the type of minority  
19 participation you need to fashion. Thank you.

20 MR. REED: Thank you, Major. I will  
21 note that it takes a lawyer and a professor to  
22 call a book this thick a document. Barbara, I

1 don't know if you want to jump in.

2 MS. KREISMAN: I am the Commission's  
3 liaison with the Diversity Federal Advisory  
4 Committee, and one of the working groups right now  
5 interestingly enough is getting ready to make some  
6 best practices recommendations. Our next meeting  
7 is December 3. But I just read a draft by Diane  
8 Souter and Susan Patrick, both women, both  
9 entrepreneurs. Susan Patrick is also a broker.  
10 One of the things that they may recommend is that  
11 we coordinate what is available for minority women  
12 groups starting out. NTIA has a program. USDA  
13 has a program. You have explained, Jenell, the  
14 Telecommunications Development Fund, but all this  
15 information seems to be spread out. They've  
16 complained that it's really hard for a new company  
17 to see the resources or find the resources that  
18 are available. So they've asked whether it would  
19 be possible, I think they're going to recommend,  
20 that the Commission take some kind of a leadership  
21 role in coordinating this. My question to you is  
22 is this something that can be done and is it

1 feasible? I don't think it makes any sense to put  
2 together a website that gives very general,  
3 superficial information. The question is, would  
4 it make sense for us, the main players here to put  
5 together a team that we find a spot that we can  
6 advertise that these companies or upcoming  
7 companies can go to to really get the whole outlay  
8 of what's available to the upstart small diverse  
9 companies.

10 MR. MONTERO: If I could jump in on  
11 that, Jenell and I worked on that document. In  
12 fact, we were giving comments on it just within  
13 the past 24 hours.

14 MS. KREISMAN: I apologize first of all  
15 for jumping the gun here. This will be officially  
16 presented in the format voted by the committee,  
17 but I thought since we had all the main players  
18 here that it was too an opportunity to pass up.

19 MR. MONTERO: Where it came up was that  
20 when I was director of OCBO, at the time one of  
21 the issues that we were addressing was how to deal  
22 with the issue of discrimination in the

1 advertising industry, the no urban dictates, no  
2 Hispanic dictates as far as advertising buying  
3 advertising time and how to bring more advertising  
4 dollars to those companies. A working group was  
5 created largely then under the auspices of Vice  
6 President Al Gore's Reinventing Government to  
7 create an interagency working group and we had  
8 representatives from the FCC.

9 MS. TRIGG: And from the Small Business  
10 Administration. I serviced on that working group.

11 MR. MONTERO: Exactly. SBA was there,  
12 the Federal Trade Commission was there, Department  
13 of Justice was there, and we would meet at least  
14 once a month, sometimes a couple of times a month,  
15 to coordinate our efforts and link websites and  
16 create a combined motion as far as what action  
17 that the government could take. The idea, I think  
18 you're right, there are all these resources and  
19 they're all spread around. For an entrepreneur  
20 out there it's like where do I start? For it to  
21 be brought together if these agencies could  
22 coordinate with each other to create whether it's



1 a website presence of a combined effort to put out  
2 the information of all the resources that are out  
3 there and all the efforts that are being made and  
4 also to hear the problems that the entrepreneurs  
5 are facing I think would be incredibly important.

6 MS. KREISMAN: Let me look to Gary and  
7 to Maureen because you'd be two of the main  
8 players here. Is this something you think we  
9 should pursue?

10 MS. LEWIS: I certainly do. There is a  
11 long history of coordination and cooperation  
12 between the FCC and NTIA. We've worked very  
13 closely together as you know on the converter box  
14 keep-up program and the digital transition. But  
15 with regard to an essential repository of  
16 information, I think that's a great idea  
17 particularly because we know that small businesses  
18 don't have a lot of resources, they don't have the  
19 time to do a lot of research, so to be able to  
20 focus information in a single location I think is  
21 a great idea. I'm certain that we would be happy  
22 to participate in that kind of endeavor.

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1                   There's another agency at the Department  
2 of Commerce, the Minority Business Development  
3 Agency, which is a wonderful resource that many  
4 people don't know about and I frequently am  
5 helping folks in the telecom sector learn about  
6 our sister agency at MBDA. So I think there  
7 certainly is an opportunity for us to work very  
8 closely with RUS on our broadband initiative. So  
9 I do think that it's a good idea that we ought to  
10 consider.

11                   DR. BOJES: I agree, and I just wanted  
12 to say that I think Mr. McDowell or Chairman  
13 McDowell said it perfectly. It's about  
14 communication. A website seems kind of weak. You  
15 need a strike force team. What we did a long time  
16 ago in the Rural Electrification Act was we  
17 brought a circus out to the rural areas and showed  
18 people what they could do with electricity and we  
19 certainly bring that kind of circus I would think  
20 of folks with programs out to the field and work  
21 it that way. USDA has over 500 offices and 6,000  
22 employees and the more that they know about what

1 this circus might be presenting the more they  
2 could articulate to try to get their jobs done as  
3 well.

4 MS. TRIGG: Barbara, I see a combination  
5 of both website as well as outreach which is what  
6 I think is the very practical aspect. The website  
7 is more than just links. I would love to see a  
8 site that will break down what the government  
9 loans, equity and grant availabilities are and  
10 what the requirements are. It could be a working  
11 grid. It could be an active grid. When are the  
12 deadlines? Do you have to meet the SBA size  
13 standards or if not the FCC has its own size  
14 standards, for example, approved by the SBA for  
15 competitive bidding, what size standards are  
16 appropriate so that you don't have to look through  
17 reams of FCC decisions to see what the actual size  
18 standard is.

19 I would love to see when the deadlines  
20 are, so that way if a small business that has  
21 limited resources and limited time still has to  
22 run its business while applying for all these

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1 loans can manage their time more efficiently. I  
2 see an active website in that regard. An  
3 interagency task force could certainly meet to see  
4 what type of programs are available that can  
5 cross-pollinate or do them jointly,  
6 notwithstanding there could be some statutory  
7 restrictions and timeframes, but if you could  
8 coordinate NTIA and RUS as you've done for the  
9 Recovery Act, why can't the FCC do something with  
10 NTIA in regard to some of its processes as well?

11 I also see where we can engage other  
12 agencies that have funds that could be used for  
13 telecommunications purposes. Then some of the  
14 agencies here, we are looking at training,  
15 educational promotion for schools, libraries. It  
16 doesn't have to always come out of the Universal  
17 Service Fund. So this interagency task force  
18 including the White House and maybe  
19 representatives from the small business committees  
20 from Congress, again, a joint effort to address  
21 the development of telecommunications which  
22 impacts every small business in America. Every

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1 small business has a phone, needs a wireless  
2 connection, needs broadband. This impacts not  
3 just those licensees, but every business in this  
4 country, and small businesses as we know are the  
5 engines that are going to move this economy  
6 forward. So I see this library of resources,  
7 online resources, as a little more expansive, but  
8 certainly from a more practical perspective, I  
9 think both website and task force would be  
10 appropriate.

11 MR. CLARK: I can't disagree with  
12 anything that's been said, but I think that  
13 another piece of that, and it has to be a very  
14 interactive piece, and the piece that Frank talked  
15 about may not get it with this website. There's a  
16 group of investors and a group of bankers and  
17 other folks out there who need to understand the  
18 significance of all of this and be more of an  
19 active participant as opposed to a passive  
20 participant. So it's just enough to get out to  
21 the small businesses and say these are the things  
22 you have out there and these are the timeframes



1 that you have to get all of this in, we got to  
2 look at where the money is coming from.

3 MS. TRIGG: That's another  
4 recommendation that part two is coming, and I'll  
5 make sure we follow-up with you, but that's  
6 another part of the recommendation which has not  
7 yet been finalized. Again, Frank and I and  
8 Barbara, we've been communicating through email in  
9 just the past 24 hours to fine-tune this. But,  
10 no, we're talking about additional outreach to  
11 where the money is.

12 MS. KREISMAN: You're absolutely right.  
13 The recommendation of the draft was to educate the  
14 money sources as to the business, the models and  
15 what would work and that's an excellent point and  
16 you're absolutely right.

17 MR. REED: We've got some excellent  
18 questions from the audience. I'm going to jump in  
19 and ask some of theirs. This is from Cheryl Johns  
20 at the SBA and this is for Gary and Maureen, If  
21 after the first round of Recovery Act funding NTIA  
22 and RUS and determine that few SDBs were

1       successful in receiving grants, what steps will  
2       each agency take to correct that?

3               MS. LEWIS: That's a great question and  
4       it's one that we are spending a lot of time  
5       thinking about. As I mentioned before, we have a  
6       request for information that is currently on the  
7       street. It's a very short timeframe for  
8       responses. It's going to be a 14 day comment  
9       period once the request for information is  
10      publicized. I don't want to preview what NTIA or  
11      RUS might do, but know that we are paying a lot of  
12      attention to that question. We are going to be  
13      looking very carefully at SDB participation. We  
14      know we have a statutory mandate to include SDBs  
15      and make sure that grant awards are given. So I  
16      would encourage organizations and constituents who  
17      have an interest in making sure that SDBs, and  
18      have some recommendations about what NTIA might  
19      do, if in fact we don't see the level of  
20      participation that we'd like that you participate  
21      and file comments in the request for information.

22               But I would like to say though in this

1 first round of applications, there were roughly  
2 2,000 applications that were received requesting  
3 \$28 billion in funding which is four times the  
4 amount of funding that's available under the  
5 program, so it demonstrates a very strong demand  
6 for these funds. But we did have 114 SDB  
7 applications as well as a number of other  
8 applicants who are partnering with SDBs. So we do  
9 see some good interest and participation in this  
10 round of funding. We are looking forward to our  
11 announcements and I'm confident that we're going  
12 to have strong applications that we'll be able to  
13 award in this first round. But know that there is  
14 a second round coming where the bulk of the money  
15 will be awarded and that next round of funding  
16 will be announced sometime in the winter.

17 DR. BOJES: I think Maureen said it all.  
18 One of the components of the program the way it  
19 exists at the minute is pulling in partners, so  
20 there was scoring for partners. So if you have  
21 the community there, and I was here a month ago on  
22 individuals with disability and none of them said

1 that they had participated as a partner in an  
2 application and I could see a number of ways to  
3 bring in folks so that you would score on the  
4 current provisions in addition to what we learn in  
5 our outreach.

6 MR. REED: Can you talk a little bit  
7 about what you've seen in the first round of  
8 applications? My understanding is at least with  
9 the BTOP funds that a good percentage were devoted  
10 to infrastructure build-out applications and not  
11 enough, I won't say not enough, but certainly a  
12 much smaller percentage focused on adoption issues  
13 in communities where the internet and broadband is  
14 underutilized or unused. Can you speak to that in  
15 terms of what you're looking at that in the next  
16 rounds?

17 MS. LEWIS: You're right that the  
18 first-round applications were very heavily skewed  
19 toward infrastructure projects, but you raise a  
20 good point because the public computing center  
21 capacity grant opportunities as well as those for  
22 sustainable adoption are wonderful opportunities

1 to bring in partnerships and nontraditional  
2 players to help bring the promise of broadband to  
3 unserved and underserved communities by helping  
4 people understand why broadband is important, by  
5 developing content that is delivered over  
6 broadband to help train people about the  
7 importance of what the technology can do whether  
8 it's through applications in health or education  
9 or job training. So we are going to be looking  
10 very carefully at those projects that are  
11 comprehensive in nature that involve a lot of  
12 partners, that meet a number of community needs.  
13 Remember, we're using Stimulus Act dollars. We  
14 want to spread the money as broadly as we can to  
15 affect as many communities as we can, but we know  
16 that because we're talking about  
17 telecommunications infrastructure and  
18 telecommunications programs, that there's a lot of  
19 money needed to bring these projects to life. So  
20 to the extent that folks can partner and look at a  
21 number of different ways to not only pool  
22 resources but to meet a number of community needs,

1 a number of statutory objectives like creating  
2 jobs in a community will be those projects that I  
3 think will be most appealing.

4 But I would encourage people to go to  
5 broadbandusa.gov where there is a searchable  
6 database of the first round applications online so  
7 people can get an idea of the kinds of  
8 applications that have been submitted. Once  
9 applications are completed and awards are made,  
10 those winning awards will be posted online so  
11 people will understand what kinds of projects were  
12 of interest to the two agencies.

13 DR. BOJES: I think the design of the  
14 program and all of the advice that took place was  
15 to make sure there was more than one round. In my  
16 opinion, it's probably the expectation those who  
17 were trying to build infrastructure have been at  
18 this for a while and they had their work ready,  
19 and what we didn't want to do was say that's the  
20 window of opportunity. We opened up a round to  
21 get that opportunity and I would expect that what  
22 you'll see in the second round will be those

1 well-thought out ideas that cover the gaps that  
2 may have been missed.

3 MR. REED: This question is from Landon  
4 Taylor. Landon is with New Paradigm Broadcasting  
5 Network out of California. He asks a two-part  
6 question, one for Jenell and one for Major. For  
7 Jenell, Can you please expand on what we need to  
8 do to apply for grant funds through TDF?

9 MS. TRIGG: Through TDF's foundation  
10 they're looking at not-for-groups, so if you are  
11 looking at making profit, you may not be eligible  
12 for a grant. So you're operating a public  
13 television system, that's something that you can  
14 apply for I believe on the website, and that's  
15 www.tdfund.org. Again, they're looking at how to  
16 fulfill their statutory mandate in terms of  
17 reaching underserved areas and also trying to get  
18 more education out there. So if you're not doing  
19 something unique, that may be a concern. But  
20 certainly Linda Nickel, they have an excellent  
21 website by the way of resources, a host of what  
22 the foundation is doing. I don't believe that

1       there's a grant application link, but there is  
2       certainly additional information and you can look  
3       at that. Linda Nickel would be the contact person  
4       at TDF in that regard.

5               MR. REED: You had mentioned the \$80  
6       million that TDF has to invest. A good majority  
7       of that is invested currently?

8               MS. TRIGG: That's invested in about 13  
9       portfolio companies, that fund, this is the second  
10      fund as part of TDF. Thomas has been active since  
11      2005 which means they're at the end of that fund.  
12      Venture capital funds usually are for a 10 year  
13      period because then they want to exit and recoup  
14      their money. They're not long term capital even  
15      though arguably they're patient (?) capital, the  
16      investment us usually only for a 4 to 6 period  
17      horizon. So the \$80 million is what was earned by  
18      auction. My understanding in talking to the  
19      president and CEO who sends his regrets, by the  
20      way, that he couldn't join us today, is that they  
21      probably two to three more investments left. They  
22      also have some dry powder that's left to fund



1 additional investments for the current portfolio  
2 companies if they need it. I mentioned that  
3 there's a 500 to \$5 million range for TDF.  
4 There's no venture capital that's going to give  
5 you the \$5 million right off the bat. It's they  
6 give you it in increments and you have to meet  
7 performance requirements and obligations and  
8 revenue hits and then they'll continue to fund  
9 that, but there's probably enough for two to three  
10 more investments.

11 The problem with up-front payments and  
12 auction revenue is it's sporadic. We don't know  
13 when the Commission will hold an auction. There's  
14 no full plan. We don't know how many bidders are  
15 going to participate, what the value of the  
16 auction is, how much the up-front payments will  
17 be. Therefore, that's what earns interest.  
18 Proposed legislation by the way is to change that  
19 statutory authority so it's not just interest  
20 earned on the up-front payments, it's also earned  
21 on the down payments as well as quite frankly even  
22 the auction revenue itself. There is more than

1       \$32 billion that was generated by the last two  
2       major wireless auctions. Even if that money only  
3       sat in Mellon Bank for 2 or 3 days, it would have  
4       earned a nice piece of change for TDF. So that's  
5       one of the legislative fixes is to change that.  
6       But for granting, they have no form set on  
7       qualifications for granting. It will be on the  
8       merits of each individual proposal.

9               MR. REED: Major, your question is can  
10       you expand on the opportunity to attract venture  
11       capital in the broadcast space now? I'm  
12       interested in small business. I think I read that  
13       correctly. You may want to rephrase it for me.

14              MR. CLARK: I was referring to the Small  
15       Business Innovation and Research Program which was  
16       started by Congress in about 1980 and because the  
17       program has been so successful in terms of small  
18       business research companies developing product and  
19       taking product to the market, and especially in  
20       the health arena, that we find now that when the  
21       program first started there were very few venture  
22       companies that wanted to invest. There are a lot

1 of venture companies now that are very interested  
2 in investing in some of these small businesses  
3 with their products, and in order to do that the  
4 issue was the way the Small Business Act operates,  
5 that a business has to be 51 percent owned and  
6 controlled, it has to be independent and a few  
7 other characteristics. But these investment  
8 companies as Jenell and Frank have said are  
9 looking to get out of the deal either ownership or  
10 a sizable profit from what they put in, so  
11 whatever money they put in, they want some  
12 corresponding ownership of that company and  
13 heretofore these companies could not own more than  
14 49 percent. There is some movement afoot, it  
15 hasn't been finalized and it's been afoot for a  
16 couple of years, but there is some movement afoot  
17 to give some consideration to these larger  
18 companies when they're putting these packages  
19 together especially in the health care NIH arena  
20 so that these businesses can stay small, qualify  
21 for the services, but at the same time have the  
22 benefit of some of those enormous investment

1 capital. I was just saying I think in the  
2 telecommunication arena we're going to have to  
3 probably because of the largeness of this process,  
4 you do have some smaller companies, but when you  
5 really start talking about ownership and so forth,  
6 you're going to have to put some deals together  
7 that expand and move the definition of small to  
8 something that's more realistic for the industry  
9 itself.

10 MR. MONTERO: If I could add, when you  
11 talked earlier I think you hit the nail on the  
12 head. There are generically speaking choke points  
13 on bringing capital in whether it's the net worth  
14 caps that you talked about or the 51 percent  
15 control limits or whether it's limitations on  
16 foreign investment in domestic companies because  
17 of the foreign ownership caps or equity caps,  
18 limitations on collateralization of licenses and  
19 certain assets. All those things are choke points  
20 that make investors and lenders nervous and choke  
21 off the ability, and I think frankly this is  
22 another area where if there's an interagency

1 coordination they can address this, they can start  
2 talking to each other to see if there are ways.  
3 Some of these things can be dealt with at the  
4 agency level but others require congressional  
5 action. But going back to my earlier example of  
6 the opinion molder rule at the SBA, that was  
7 obviously back then a choke point but they had the  
8 ability to change that rule and free up loan  
9 guarantees to the media industry and I think that  
10 there are other choke points now that can be  
11 addressed and I think you hit the nail on the head  
12 on some of them.

13 MR. CLARK: In fact, another choke point  
14 which we haven't talked about is the point of when  
15 a bank for example makes an investment in a small  
16 business, a loan and so forth, there's a whole  
17 issue floating around in terms of goodwill and  
18 that is yet another choke point that really hit  
19 the fan in January when SBA was trying to change  
20 its definition of what constitutes goodwill. They  
21 were trying to do that in the midst of the  
22 Recovery Act and the banks just went totally crazy

1 because they saw themselves not being able to move  
2 some of these businesses into a sell mode because  
3 the definition of goodwill had been changed. And  
4 a lot of small businesses have goodwill. They  
5 don't necessarily have bricks and mortar. They  
6 have the goodwill of the industry that really has  
7 a monetary value. So you're absolutely right,  
8 Frank, there are some choke holds and I think the  
9 only way those things are getting looked at and  
10 resolved is through interagency deliberation and  
11 bringing in Congress when appropriate to mediate  
12 and to make sure that they are effectively dealt  
13 with.

14 MR. MONTERO: The IRS has to be very  
15 much involved because I'll tell you there's no  
16 greater method as we know from the tax certificate  
17 policies, tax policy can have a huge effect on how  
18 the industry works in the freeing up of capital.

19 MR. REED: Now we're hitting the 11  
20 o'clock hour. This has gone pretty quickly and we  
21 have a lot of questions that folks would love to  
22 ask and hopefully folks will have an opportunity

1 in the break period to chat with you briefly. Let  
2 me give you each an opportunity I think. I'll  
3 probably speak first to Frank and Jenell who are  
4 nongovernment who can talk to us about what are  
5 your priorities when you start thinking about  
6 regulatory fixes? You've talked about it a little  
7 bit here, but if you had to something up as a  
8 priority, what would you put there for the FCC?

9 MR. MONTERO: I will tell you that this  
10 can be an agency fix to a certain level, but  
11 beyond a certain level it would require  
12 legislative action, but I touched on it earlier,  
13 there are a lot of foreign, European, Canadian,  
14 Latin American banks and venture capital funds  
15 that would love to invest in this market. Even  
16 with the struggles that we've had, this is still a  
17 very attractive market for some of those  
18 investors. But due to limitations on the amount  
19 of equity can be held by foreign investors, there  
20 are limitations on what they can do. Also in the  
21 media field there are foreign program suppliers  
22 who would love to be able to partner up with

1 domestic especially in the Spanish field. There  
2 are Spanish networks or Latin American networks  
3 that would love to get access to this market but  
4 there are certain limitations on what they can do.

5 I also think, and this was a resolution  
6 that we passed when I served on the Diversity  
7 Advisory Committee, that either a lifting or a  
8 further relaxation on the limitation on taking  
9 security interests in licenses would go a long way  
10 because I think that scares a lot of lenders. The  
11 feeling is that they want to be able to  
12 collateralize the asset. If you're going to buy a  
13 house with a loan, you expect to give the bank a  
14 mortgage. They want to be able to collateralize  
15 that loan, and the inability to collateralize that  
16 loan completely coupled with a lack of tangible  
17 inventory and also the fact that for a new entrant  
18 into the marketplace that there is no cash flow.  
19 As Jenell pointed out, they're going in starting  
20 cold. They're looking at the asset value and most  
21 times the asset value is the license and that's  
22 the one thing they can't take a security interest



1 in and it scares them.

2 MS. TRIGG: I would say the fourth  
3 primary obstacle for small business and minority  
4 business access to capital is regulatory  
5 uncertainty and the regulatory process.  
6 Overarching the FCC can do quite a bit if it  
7 complies fully with the spirit and letter of for  
8 example Section 257 of the 1996 act which requires  
9 the FCC to identify and eliminate market entry  
10 barriers for small businesses. If the FCC would  
11 incorporate an active and vigorous 257 review for  
12 every piece of rule making, notice of proposed  
13 rule making, report and order, that leaves this  
14 Commission to look at whether there's an access to  
15 capital issue, is there a market entry barrier  
16 issue for small businesses that we have either  
17 inadvertently created or we have hampered or  
18 something along those lines along with its  
19 Regulatory Flexibility Act compliance. I'm  
20 affectionately known as the reg flex queen here at  
21 the FCC because I helped implement all of the  
22 Regulatory Flexibility Act analyses for the 1996

1 act implementation.

2 MR. REED: And we thank you for that.

3 MS. TRIGG: Quite frankly, I see some of  
4 the same language I wrote back in 1997 and 1996  
5 and reviewed at the Small Business Administration  
6 as Cheryl's predecessor as Assistant Chief Counsel  
7 for Telecommunications that's used in your reg  
8 flex analysis today. It has either not been  
9 updated, not been revised to reflect the rule  
10 making that it involves and that's a real concern.  
11 It's keeping everybody else employed. I would say  
12 that the timing of the Commission's actions with  
13 major regulatory changes is sometimes more  
14 impactful and harmful to small businesses than the  
15 substance of the rule. All those small businesses  
16 can be very nimble, very flexible just by their  
17 nature. It's also more difficult for them to make  
18 regulatory changes particularly when it costs them  
19 money and money that they weren't expecting. In  
20 one particular instance, and I would be remiss if  
21 I didn't bring it up, is the FCC's designated  
22 entity rules that were revised in 2006 on the eve

1 of the AWS auction. Weeks prior to the deadline  
2 to submit your application, the Commission changed  
3 the holding period that a small designed entity  
4 has to hold its license before an investor or  
5 someone exits from a 5 year period which had been  
6 in place since 1997 subject to notice and comment  
7 rule making, to a 10 year period. For full  
8 disclosure, we are in litigation in regards to  
9 that because that impacted designated entities'  
10 ability to keep the capital they had spent to  
11 raise for a year, they lost investors and were not  
12 able to participate in the auction. So regulatory  
13 certainty, understanding that the impact of a  
  
14 regulation on small business can be more harmful  
15 particularly if it's last minute, as well as to  
16 look at the board scope of how you can eliminate  
17 market entry barriers in a timely and effective  
18 manner, and it would be wonderful to get that  
19 triennial report on 257 that's due to Congress as  
20 required by statute out on a regular basis when  
21 it's supposed to come out would be a wonderful  
22 step in the right direction.

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1                   MR. MONTERO: I'll give you an example  
2 of this.

3                   MR. REED: Frank, before you go ahead, I  
4 hate to cut you off, because we have gone over.  
5 What I'd like to do though is to give Major, Gary  
6 and Maureen an opportunity even though we're past  
7 time and we want to get to the next panel, but if  
8 you could offer some advice understanding that no  
9 one size fits all in terms of people who are  
10 applying for the funding streams that your  
11 agencies control, if you could offer some advice  
12 to some of our audience members as to what they  
13 should do to best make their applications as  
14 successful as possible.

15                   MS. LEWIS: I'd like to really encourage  
16 people to use the time between the announcement of  
17 the next notice of funds availability for the  
18 final round of BTOP funding to really look at  
19 partnership opportunities, think about anchor  
20 institutions in your communities that might be  
21 good partners. Remember, as an SDB, you yourself  
22 can lead an application, and so this is an

1 opportunity for you to start to pull together the  
2 consortia that might make a really strong  
3 application. So don't let this time pass without  
4 being really active and focusing on who you might  
5 partner with or look at potential subcontracting  
6 opportunities. There will be as I said awards  
7 announced in the future and so all of those  
8 awardees are going to need vendors, so think about  
9 those opportunities as well. But this is a  
10 wonderful opportunity for you to get ahead of the  
11 curve, monitor our broadbandusa.gov website  
12 because once the next notice of funds availability  
13 announce is made, we will be having likely the  
14 same kind of outreach that we had in the first  
15 round where we were giving people information  
16 about what to expect in the process. So monitor  
17 our website for developments because they'll be  
18 coming quickly.

19 DR. BOJES: We perceive the application  
20 and look at it from the view of a banking  
21 institution, so we're really looking for the  
22 long-term feasibility of being paid back and we

1 want to see you successful, and if we get paid  
2 back, and we've done it since 1940 in the  
3 telecommunications business with that feasibility.  
4 One idea that I think a lot of folks miss and how  
5 this whole Rural Utility Service that I mentioned  
6 earlier got created was through the cooperative  
7 ownership aspect and cooperative ownership means  
8 the users are the owners. So what they did commit  
9 then is they would buy their services from you.  
10 In the electric program for example, all  
11 subscribers own the plant. They owned that  
12 distribution company and those distribution  
13 companies together are cooperatives that own  
14 generation plants and it's because everybody is an  
15 owner, they're also agreeing to buy their power or  
16 buy their telecommunications from you. That  
17 doesn't mean you have to have everybody as an  
18 owner, but let's say there are some key revenue  
19 streams that make the prospect feasible, the  
20 proposal feasible, they might be considered as  
21 some type of cooperative owner and whatever  
22 structure you put together you could get that

1 within there. So that's just an insight I think  
2 that a lot of people have not taken advantage of.

3 MR. REED: With that I want to apologize  
4 that I wasn't able to get to all of the questions,  
5 but I thank you all for submitting them. I wanted  
6 to thank our panelists who've done a fantastic job  
7 of helping us start this conversation which  
8 obviously is just the beginning of this  
9 conversation, and as I understand now, I'm the  
10 focal point for interagency activity. So please  
11 do come directly to our office to make sure that  
12 you can reconnect with our panelists.

13 Right now we want to probably take about  
14 4 or 10 minutes before the next panel, so  
15 hopefully there will be an opportunity for you to  
16 come up and meet our folks. Thanks again, and  
17 thank you all for coming.

18 (Recess)

19 MR. REED: I think we're ready to get  
20 started, so almost good afternoon. Before I start  
21 off with the panel, just a little housekeeping on  
22 the breakout sessions. I think Karen Beverly is



1 here for those of you who weren't earlier. If you  
2 have questions, she's right there at the back of  
3 the room. She's our assistant for management and  
4 has been coordinating in a painstaking fashion the  
5 meetings that will take place this afternoon for  
6 all of those of you who have signed up to have  
  
7 individual sessions with our panelists which I  
8 think will be very effective. The breakout  
9 sessions are going to start at 1:30, so the real  
10 answer is go to Karen, don't come to me because I  
11 don't know, and she will provide you accurate  
12 information as to where you need to be and at what  
13 time.

14 Thank you all again for coming. I'd  
15 like to welcome our second set of distinguished  
16 panelists in the private sector world who will be  
17 giving us some practical advice about where the  
18 money is and how to get it if that's a  
19 possibility. So let me introduce you all to them.

20 Our first panelist is Anita Stephens  
21 Graham with Opportunity Capital. Anita has more  
22 than 20 years of experience at management levels

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1 within the private equity and banking industries  
2 and joined OCP in 1996. Anita has managed OCP's  
3 affairs with respect to its investments in several  
4 companies. She currently serves on the board of  
5 directors of the National Association of  
6 Investment Companies. She is also a board member  
7 of Pacific Community Ventures and a member of the  
8 Cornell University Entrepreneurial Advisory  
9 Council. Anita holds an undergraduate degree in  
10 economics from Cornell and an executive MBA from  
11 Golden State University. Anita will offer insight  
12 into the lending objectives of Opportunity Capital  
13 and its primary investment strategies. She'll lay  
14 out the subject areas in which Opportunity Capital  
15 focuses and the parameters for its investments.

16 MS. GRAHAM: Good morning, and thank you  
17 for having me. Opportunity Capital Partners is a  
18 fund that has been around since 1971. It started  
19 out as a MESBIC, for those who can date  
20 themselves, a Minority Enterprise Small Business  
21 Investment Company that was regulated by the SBA  
22 and in that original form began to make

1 investments in primarily women and minority owned  
2 businesses. Over the years it expanded its reach  
3 and began to invest nationally geographically,  
4 formed its first traditional partnership in 1993  
5 at that time with \$35 million of capital under  
6 management, and since then has been investing in  
7 an array of areas but with a primary focus in  
8 communications, and we currently out of  
9 Opportunity Capital Partners manages \$135 million  
10 of capital in our total portfolio.

11 Opportunity Capital, if you look at the  
12 communications space which is an area that we've  
13 been investing in probably since I guess the 1980s  
14 because we were one of the original investors in  
15 Radio One and Z- Spanish and has continued to be  
16 an investor in traditional broadcasting and of  
17 course has since expanded into wireless and  
18 broadband and the like, have always looked at this  
19 area and this industry as having very strong  
20 fundamentals primarily because of the franchise  
21 value of the asset itself, the license,  
22 predictable cash flow if you were an ongoing

1 business, and then of course looking at the things  
2 that every private equity form wants to look at  
3 and that is a good management team, strong  
4 dominance in the markets, et cetera. So  
5 communications has been a very good area for us to  
6 invest in historically.

7           What has happened today has impacted us  
8 because the marketplace has changed. In part as a  
9 private equity investor we look at this industry  
10 and we've always been able to rely on what we call  
11 the downside projection that the value of the  
12 licenses always provided. With the significant  
13 decline in valuation of those licenses, what it  
14 has created in this industry is companies that are  
15 upside down where the value of the business is no  
16 longer sufficient to cover the debt on the  
17 stations, and we invest on fairly sizable groups.  
18 The other part of that is we're struggling to find  
19 out where is bottom and in an industry that used  
20 to trade at 15, mid-teen multiples of broadcast  
21 cash flow, they are now seeing transactions at 4  
22 to 6 times cash flow. So if you acquired

1 properties at that peak period, you suddenly find  
2 yourself in this upside down world of trying to  
3 restructure what are still fundamentally good  
4 deals but quite frankly in an environment where  
5 valuations have so declined that we now have to  
6 react to what the banks want to do who have also  
7 experienced extreme liquidity pressure as they  
8 have had to revalue these assets that were in the  
9 black that are now in the red.

10 So it's a crazy time quite honestly to  
11 be investing in this marketplace and we spend a  
12 lot of time thinking about what's the right type  
13 of approach to looking at transactions. First of  
14 all, we are hovering and are not looking at too  
15 many things that even above 4 times cash flow, and  
16 even there we're being very careful at the  
17 properties that we look at. We want people who  
18 are in dominant markets. If you're talking about  
19 traditional broadcasting, and I can switch and  
20 talk about broadband which is something a little  
21 bit different, but in traditional broadcasting we  
22 have slowed down our investing trying to figure

1 out how do we right the ship, what does that look  
2 like. If you're going into transactions nowadays,  
3 banks are not lending more than 2 to 3 times  
4 broadcast cash flow and they are warning equity  
5 investors like ourselves to overequitize the deal  
6 which begins to not make sense because how do we  
7 get a return on our investment? As you heard in  
8 the earlier panel, we are investors that have a  
9 date in and a date out and that's usually a 3 to 5  
10 year holding period on these investments and it  
11 becomes a lot more difficult now to predict what  
12 that return would have been with the current  
13 environment and the current marketplace that we're  
14 dealing in. So we are operating at the very low  
15 multiples of broadcast cash flow. We expect  
16 management to put in a lot more money alongside of  
17 us and that can come in the form of seller paper  
18 if you're buying properties, it can come in the  
19 form of cash, but money that is our level to help  
20 complement the fact that we're being asked to step  
21 up and put in a lot more equity. So we are doing  
22 that.

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1           We are partnering at least in the case  
2 of Opportunity Capital Partners with a lot more  
3 regional banks who have decided to step in and  
4 fill the void on the lending side that a lot of  
5 the major banks have simply moved out of because  
6 they're in quite frankly a restructuring mode. So  
7 we have now developed new relationships with a lot  
8 of regional banks, and of course as an educational  
9 process to the issues related to lending,  
10 franchise licenses and the like, but at least  
11 there is some receptivity to look at transactions,  
12 and that's how we continue to be active, much  
13 slower, quite frankly, but certainly continuing to  
14 find creative ways to get transactions done.

15           MR. REED: Thank you, Anita. Next on  
16 our panel is Arun Gupta. He is a partner at  
17 Columbia Capital. Arun joined Columbia in 2000  
18 and focuses on internet media, wireless and  
19 enterprise technology services opportunities. He  
20 is actively involved with Approva, Avail Media,  
21 Brickstream, Devas Multimedia, NV Vision,  
22 Freewebs, Gizmos, InterWireless, Intelliworks,

1 Millennium Media and Netuitive. Arun was also  
2 involved with former Columbia portfolio company's  
3 Adjoined Consulting acquired by Kanbay  
4 International, Riptech which was acquired by  
5 Symantec, and Softech Storage Holdings acquired by  
6 IBM. Prior to joining Columbia, Arun was at  
7 Carlisle Venture Partners focusing on software and  
8 internet investments. Arun held positions in  
9 Arthur D. Little's Telecom and Technology  
10 Consulting Practice and shared responsibility for  
11 establishing ADL's operations in India.

12 Arun will lay out the goals of Columbia  
13 Capital. The company invests exclusively in the  
14 wireless, broadband, information tech and new  
15 media sectors. He will explain why Columbia is  
16 typically one of the first institutional investors  
17 in the business and assumes a leadership role in  
18 the company and on its board of directors building  
19 close working relationships with entrepreneurs.

20 MR. GUPTA: My name is Arun Gupta and  
21 I'm a partner at Columbia Capital. I've been a  
22 partner there now for 9 years. Columbia Capital

1 is a local communications and media technology  
2 fund based in Alexandria, Virginia. We are just  
3 about to close our fifth fund and have been doing  
4 direct investments since the early 1990s. We have  
5 about \$3 billion under management and this latest  
6 fund will be approximately \$500 million.

7           The way we invest at Columbia is we take  
8 much more of a sector focused approach in that we  
9 are solely focused on the communications media and  
10 IT services space. Our real focus area are  
11 subscriber based businesses or businesses that  
12 have recurring revenue because models associated  
13 with them. Within communications and media  
14 technology we look at four broad areas, wireless  
15 being one and that would be anything from spectrum  
16 to infrastructure to applications. The second  
17 would be broadband which would be again service  
18 providers, underlying technology and applications.  
19 The third would be enterprise, data centers,  
20 managed services opportunities and IT services  
21 opportunities. The fourth would be media, both  
22 traditional media, new media, cable opportunities,

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1 and then the convergence of media and either  
2 broadband or wireless.

3 The way we view ourselves is we are a  
4 venture fund. If you look at our portfolio, I'd  
5 say about 20 to 25 percent of our portfolio is  
6 what I'd classify as early stage where we're  
7 backing a strong management team that's been  
8 there, done that before but may not have a lot of  
9 revenue traction at this point in time, but some  
10 initial validation from the market. Fifty percent  
11 of our portfolio or our current investments would  
12 probably fall into the category of what would be  
13 growth, companies that have momentum and  
14 validation in the market and are growing, likely  
15 bootstrapped but now want to take institutional  
16 capital to really scale their business model. The  
17 remaining 20 to 25 percent, albeit in the recent  
18 market it's probably been a little bit larger, is  
19 what I would classify as distressed, in many cases  
20 some of the companies that Anita outlined which  
21 are good fundamental companies but have found that  
22 their balance sheets have gone upside down and are

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1 looking for people who really understand the  
2 sector, and while everyone is running out from the  
3 burning house, we're looking to go in and pick up  
4 some of the crown jewels have been left behind.  
5 That's where we feel our sector expertise comes in  
6 handy in understanding the value of the underlying  
7 asset. An example would be in 2002-2003  
8 post-bubble when CLEC was a bad four letter word  
9 and everyone was leaving that space, we went in  
10 and looked at it and saw that there were  
11 consolidation opportunities there, and a lot of  
12 the problems were not demand focused, but it was  
13 supply focused, too many people competing for the  
14 same customers, but if you could consolidate that  
15 and be the last capital in there were some pretty  
16 attractive opportunities. We were the  
17 beneficiaries of having some into some of those  
18 deals of the last money in and drove returns of  
19 upwards of 4 and in one case an 18X return on that  
20 opportunity.

21 What we view ourselves as different from  
22 what I would classify true private equity or

1 control oriented investors is we are minority  
2 investors, so as a result to Tom's point earlier,  
3 we view ourselves as closely working with  
4 management teams. We're not control investors  
5 where we're telling the management team what to  
6 do, but we look to ourselves as being partners  
7 with the teams to help build their businesses. So  
8 for us as we look at the criteria for the types of  
9 businesses we invest in, team is probably number  
10 one the list and probably number two on the list.  
11 We look for people who have deep domain expertise,  
12 experience in whatever because that they're  
13 looking to start or are currently managing. We  
14 would probably be of the mindset of backing an A  
15 team in a B market versus a B team in an A market,  
16 and I think if we look at our portfolio, the  
17 highest correlation of success versus failures in  
18 our portfolio probably are correlated to the  
19 quality of the management teams that we backed.

20 Secondly, some of this is going to sound  
21 like mom and apple pie, but we're looking for  
22 large markets that are growing and we see



1 structural disruption taking place, and that could  
2 be regulatory disruption, that could be disruption  
3 caused by technology, that could be industry  
4 disruption, just the convergence of things  
5 naturally taking place changes an industry's  
6 structure which creates opportunities for us.  
7 That kind of disruption I think lends itself to  
8 new entrants. An example would be we were large  
9 investors in Metro PCS. People would look at the  
10 wireless voice game in 2001 and 2002 and say  
11 that's pretty much been played out. What we I  
12 think saw at that time was there was a market  
13 segmentation opportunity there that the large  
14 carriers wouldn't be able to go after and yet  
15 still maintain their price umbrella. That all you  
16 can eat offering, so to speak, was enabled by some  
17 technology disruption to allow you to be able to  
18 create networks at lower cost.

19 So what we're looking at is where can we  
20 connect the dots between what we see in the  
21 marketplace, what we see on the technology side  
22 and what we see from the demand side. When I look

1 at how we view opportunities and how we view  
2 ourselves in these businesses, using a movie  
3 analogy, we probably view ourselves as the  
4 producers. We're not the director. We're not  
5 trying to tell people to do and where they should  
6 be, and we're clearly not the lead actor or the  
7 lead access because if we find ourselves in that  
8 role that means things have really gone array.  
9 What we are as producers, our responsibility is to  
10 make sure we are bringing the right people to the  
11 table from a team perspective and helping our  
12 businesses recruit the right team members and  
13 leveraging our network within the industry. We  
14 are looking to leverage our network to bring the  
15 right partnerships and customer introductions  
16 where appropriate to the table. We're trying to  
17 leverage our relationships to make sure that our  
18 companies are well capitalized both equity and  
19 debt. And where we can, try to bring lessons  
20 learned given that we have the benefit of looking  
21 across a portfolio of companies and have probably  
22 made more mistakes than our portfolio execs would

1 have made and hopefully they can benefit from  
2 those mistakes that we've made and seen at least  
3 across our portfolio.

4 We're typically shooting for returns of  
5 3 to 10X in our deals and we're not looking to use  
6 leverage to drive those returns. That doesn't we  
7 don't mean leverage in our deals, but we're not  
8 looking to have leverage be the rationale for how  
9 we drive those returns in our deals. We are  
10 looking to use our sector expertise to see how we  
11 may be able to unlock value either because of the  
12 market dynamics or the value of the underlying  
13 assets.

14 In the current market that we're in  
15 today, I think what we're finding, and this is our  
16 belief going forward if you look at the market, is  
17 that it's going to be difficult to be a generalist  
18 and drive alpha in our business. We believe the  
19 days of spreadsheet jockeying your way to returns  
20 without understanding the underlying fundamentals  
21 of the business are probably over because the  
22 access to cheap debt and things of that sort, the

1 underlying reasons that were fueling that ability,  
2 we probably won't see those days again. So I  
3 think that gets firms like us back to needing to  
4 understand the core sector that you're in, how it  
5 operates and needing to frankly unlock value the  
6 hard way which is back to doing core business  
7 again.

8           So I think we're taking a deep dive  
9 within that sector expertise and we'll continue to  
10 do so. In a market like this right now, we're  
11 probably looking at things that are either growth  
12 or distressed oriented. The risk/reward on just  
13 an idea on paper is a tough one to play through  
14 given multiples as has been said before have  
15 dropped significantly, so when you can buy  
16 something at a certain pre-money valuation it  
17 discourages you to start with something that  
18 doesn't have real revenue or any traction to it  
19 today. That doesn't mean that we're not looking  
20 at early stage things, but the bar is  
21 significantly higher I would say. I think we're  
22 looking at those things mainly with teams that

1 have been successful from the past, that have  
2 either started companies before or have been in  
3 our portfolio before. We've just funded a deal in  
4 the managed services space with a team that we've  
5 backed before around virtualization, but what  
6 they're doing is a build-up strategy. They're  
7 finding platform companies that they can go either  
8 invest in or acquire, and then we're looking to  
9 add on to that both organically and inorganically  
10 through growth taking again advantage of what we  
11 think is a very value advantageous environment  
12 from a private equity or venture capital  
13 perspective.

14 We are looking at distressed deals.  
15 We've seen a few things where there are fiber  
16 assets that people undervalue and don't know the  
17 real value of but are running away from and  
18 looking to acquire those or spectrum and we're  
19 underlying asset value there, and are continuing  
20 to say active again in the media space as well.  
21 I'll cut it there and we can answer more during  
22 the Q and A session.

1           MR. REED: Thank you, Arun. Our next  
2 panelist is Mark Levine who is the Managing  
3 Director at Core Capital. Mark joined Core in  
4 2000 from GCI Venture Partners, an early stage  
5 tech venture capital fund that he founded and was  
6 an early investor in web methods, one of the most  
7 successful IPOs in NASDAQ history. Previously  
8 Mark served as an officer of Geo-Centers, a  
9 technology firm with more than \$200 million in  
10 revenue when it was acquired by SAIC. There he  
11 was responsible for corporate development,  
12 government and industry relations and management  
13 of the firm's intellectual property portfolio,  
14 license and joint ventures. Prior to that, Mark  
15 was subcommittee staff director for the Small  
16 Business Committee in the U.S. House of Reps and  
17 was involved in several successful legislative and  
18 regulatory initiatives including the Small  
19 Business Innovation and Development Act and the  
20 Small Business and University Patent Act. Mark  
21 will discuss Core Capital's primary focus in  
22 lending in core technologies. He's also discuss

1 the parameters and qualifications necessary to  
2 establish an agreement between Core and potential  
3 clients.

4 MR. LEVINE: Thank you, Thomas, and  
5 thanks to the Commission for pulling this  
6 together.

7 A few memories were brought back sitting  
8 and listening to the earlier panel. Major Clark  
9 and I worked together on the Small Business  
10 Committee over 30 years ago, and as you mentioned,  
11 there were quite a few wars fought during that  
12 time period, but a great things came out of that  
13 and the SBAR bill was one that originated in my  
14 committee and I'd probably gather to guess there  
15 was probably \$15 billion pumped into the small  
16 business community and into small high-tech  
17 companies from there. The Regulatory Flexibility  
18 Act was mentioned many times. It took us 5 years  
19 to get that passed. We got that passed. The  
20 Small Business University and Development Act  
21 which I'm sure some of you have interacted with  
22 which really gives small businesses the rights to

1 commercialize inventions and research and  
2 technology development under government contract.

3 We were into the SBA authorization bill  
4 really deep and Major and I worked directly on the  
5 venture programs, the SBIC Participating  
6 Securities Program, the MESBIC program, the SBA  
7 Guarantee programs, the 7(a) Direct Lending  
8 programs. We can go on and on. Even with all  
9 those things we worked on it was government  
10 procurement. So if you combine the Regulatory  
11 Flexibility Act with rule making and taking into  
12 consideration the needs and the impact of rules on  
13 small business, but also government procurement, I  
14 think looking back we passed I think it was in  
15 1982 the Competition and Contracting Act. But  
16 that was the first concept where the government  
17 should buy goods and services from small  
18 businesses as if they were a commercial buyer and  
19 commercial off the shelf and GSA schedules then  
20 came into being. I'm sure you see a lot of it in  
21 the FCC auction rules and small business  
22 participation, but those were several of the



1 issues that we took on.

2 Also not to be overlooked was the tax  
3 policy as well. We fought for lower capital gains  
4 taxes, holding periods for small business,  
5 favorable tax treatment, and all those things  
6 combined I think are starting to move us partly to  
7 the way we have to be before we start treating  
8 small and small disadvantaged businesses in this  
9 country fairly and I know the deck is very much  
10 stacked against you.

11 I left the Hill and did start a small  
12 company. I started it with two other partners.  
13 It was a government technology company. We served  
14 the federal laboratories mostly Sandia, Naval  
15 Research Lab. We were a large Air Force  
16 contractor, a large Navy contractor, and we grew  
17 that business again through a lot of twists and  
18 turns and beat out sole source bids and just had  
19 to figure out our way as a small company. We  
20 spent 15 years at it and we grew the company to a  
21 fairly good size before we capitulated and sold it  
22 to SAIC. I'm sure some of you out there have

1       dealt with that behemoth, but it was time for me  
2       to leave once SAIC took us over and then I had  
3       moved into investing in small companies and into  
4       venture capital.

5               Our firm is an SBIC. We're part of the  
6       participating securities program. We are equity  
7       investors in small companies. We manage \$350  
8       million. We invest in early and mid-stage  
9       companies generally not pre-revenue, generally  
10      companies have had their first revenue before they  
11      approach us. We've made 45 investments in the  
12      last 9 years. We are based in Washington, D.C.  
13      We've always felt that it's an unfair advantage  
14      being close to the government. The government is  
15      the largest IT purchaser in the world,  
16      communications policy is set right here in this  
17      building, and I would probably venture to say that  
18      half of our deals are in some way affected by  
19      government policy or government procurement.  
20      Probably we have 25 active businesses today. I  
21      think 10 of them have direct contracts with the  
22      federal government. They're not government

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1 contractors, but they have direct contracts, and  
2 probably another 10 are somehow affected by rule  
3 making, much of which happens in this building.

4 We are focused on communications  
5 technology and business to business technology.  
6 Our companies create products and technology that  
7 businesses use in interacting with each other and  
8 networks used to reach out to their customers. We  
9 have four partners in our firm. To drill down a  
10 little bit, we look at industries that are  
11 changing because of internet technology, open  
12 source technology, software delivered as a  
13 service, cloud computing. We look at enablers  
14 within these areas which are things like  
15 transcoding, interoperability, how do you increase  
16 the efficiency of bandwidth, we look at backhaul,  
17 we look at compliance, we look at security, we  
18 look at energy efficiency within these markets.  
19 As far as applications that ride on top of these  
20 networks, we look at analytics and data mining, we  
21 look at data center efficiency, we look at device  
22 management, and we look at payment platforms that

1 businesses use to interact with each other.

2 A little bit about the market and Arun  
3 touched on it a little bit. We're seeing  
4 interesting investment opportunities in this  
5 market mainly because a theme of businesses'  
6 balance sheets turned upside down, and we heard  
7 the two previous speakers talk about that. It's  
8 not that we're looking at distressed situations,  
9 but we're looking at special opportunities where  
10 people have an unfair advantage and sometimes the  
11 benefits that accrue to businesses that can  
12 survive through these periods are decreased  
13 competition, better relationships with their  
14 customers, deeper networks and deeper productivity  
15 out of their own staffs. So even though this is a  
16 pretty tough market right now, there are several  
17 great companies that get formed in recessions and  
18 great investments made in recessions so that we  
19 are very actively investing in this market.

20 A lot of people are talking about the  
21 venture capital model being broken. We are not  
22 believers in that. We think if you stick to your

1 knitting in your solid equity investors you can  
2 find good deals and you can find good management  
3 teams and you can find good market opportunities.  
4 In fact, almost every one of our companies was  
5 able to hit their budget in the last year and are  
6 on budget in 2009.

7 Just a quick look at our industry. I  
8 think the average size of a VC fund has grown  
9 three times in the past 10 years. I think we'll  
10 see that change going forward. I think we'll see  
11 firms level off in size. I think we'll see  
12 partnerships stabilize and maybe even shrink  
13 instead of grow. Many firms were dependent on  
14 IPOs for their exits. It's very difficult. It's  
15 a very spotty market. There have been a few IPOs  
16 in the past 6 months, but for the last 7 to 8  
17 years there haven't been good liquidity options.  
18 But on the other hand, we see that the acquirers  
19 of our businesses, Cisco, Symantec, Microsoft,  
20 IBM, they're flush with cash and what we've seen  
21 in the past is coming out of recessions when  
22 internal programs are closed down or trimmed down,

1 we see these companies being particularly  
2 inquisitive as we come out of a recession, and  
3 there have been several interesting acquisitions  
4 in the past 4 or 5 months that kind of tell us  
5 we're starting to see these larger businesses look  
6 around and expand and look at growing.

7           So we think the entrepreneurial  
8 community in the United States is very good. It's  
9 very active. We still have not had an  
10 entrepreneur ever come in and say I'm not going to  
11 start my business now because interest rates are  
12 too high or the Federal Reserve said we may be in  
13 a stagflation environment so I'm not going to  
14 start my company. That's generally not what we  
15 hear from entrepreneurs. The passion is still  
16 high out there. High quality startups do need  
17 capital and many successful companies will be  
18 founded in this recession and we're in business to  
19 try to find those and to help them grow. Thank  
20 you.

21           MR. REED: Thank you, Mark. Just as a  
22 reminder, Calvin is coming around, so if you have

1 questions that you have for our panelists, please  
2 do send them to him and I'll do my best to get  
3 them in.

4 Our fourth panelist is Dwight Bush.  
5 He's managing partner of D.L. Bush & Associates.  
6 Dwight has served as an adviser to investors  
7 seeking to raise funding for a range of  
8 entrepreneurial ventures principally in the  
9 communications, finance and banking sectors.  
10 Dwight also served as an adviser to Inner-City  
11 Broadcasting Corporation, the nation's second  
12 largest African American controlled radio group in  
13 its corporate reorganization and acquisition of  
14 nine radio stations from Clear Channel  
15 Communications. From 2004 to 2007, Dwight  
16 successfully established Urban Trust Bank, a  
17 banking institution founded in partnership with  
18 Robert L. Johnson, founder of BET, to create a  
19 nationwide bank focused on urban based consumers.  
20 Dwight will discuss the lending parameters for  
21 D.L. Bush & Associates as well as some of the  
22 pitfalls that entrepreneurs and small businesses



1 encounter as they attempt to capitalize their  
2 plans.

3 MR. BUSH: Thank you, Thomas. Good  
4 morning. It's a pleasure for me to participate on  
5 this panel.

6 As I start my comments, I recognize that  
7 I'm the last person standing between you and  
8 lunch, and that's not a particularly good position  
9 to be in. All the books that I've read on speech  
10 making suggest that at a time like this you have  
11 to do one of two things. One is to say something  
12 or witty, or secondly, to find something  
13 provocative to say. Unfortunately, this morning I  
14 find that there is nothing funny about EBIDTA or  
15 cash flow, and there is certainly nothing sexy  
16 about asset protection or debt covenantance.

17 So with that in mind I'm going to focus  
18 on the alternative which is brevity, and I'm going  
19 to tell you a little bit about my background and  
20 experience, I'm going to speak a little bit about  
21 how lending institutions end to look at small and  
22 medium sized businesses for credit, and I'll give

1 you my perception on where my perception on where  
2 the market is, and it's actually a sobering  
3 perspective, unfortunately, and try to give a  
4 little encouragement that despite that environment  
5 as entrepreneurs, you're right to proceed in  
6 pursuing your ideas.

7 First a little bit about me and my  
8 history. As Thomas mentioned, I'm currently  
9 managing partner of D.L. Bush & Associates which  
10 is a firm that advises small and midsized  
11 companies on accessing capital. I also spend a  
12 lot of my time these days on helping companies to  
13 restructure and to negotiate their deals with  
14 banks. The larger part of my career however was  
15 at the Chase Manhattan Bank in New York where I  
16 spent 15 years. I started as a trainee in the  
17 executive development program and let Chase as a  
18 managing director in structured finance. Over the  
19 course of those 15 years, I was rooted in the  
20 discipline of through credit analysis, and I say  
21 that emphasis because if you look at what's  
22 happened in the markets in the United States over

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1 the last couple of years, it's because we got away  
2 from those disciplines. What you see how is a  
3 retrenchment of the banks toward a refocusing on  
4 five core principles which I will discuss in a  
5 little further detail later.

6 Over the time at Chase, I had the chance  
7 to represent large corporate clients in a range of  
8 industries ranging from media and telecom to  
9 chemicals and manufacturing. I raised probably \$5  
10 to \$10 billion in total for a range of  
11 institutions both private equity buyouts as well  
12 as Fortune 500 companies. As a part of that  
13 experience, I also transferred from the commercial  
14 lending side to the private equity side. What was  
15 meaningful for me in that transition was that I  
16 learned that dynamic tension that exists between  
17 credit and equity, and it's that tension that  
18 allows private equity investors if constructed  
19 correctly to get large returns, and it's also  
20 where the banks maximize their return on capital  
21 as well. So I feel like that grounding at Chase  
22 was significant in my experience and it's been

1 very meaningful to me.

2           But at its core, bank lending is really  
3 only about five principles and those principles  
4 are capacity, capital, collateral, conditions and  
5 character. Capacity is demonstrated through your  
6 ability to pay. It is the sum total of the assets  
7 that you have minus your liability. It's often  
8 reflected in your financial models which  
9 demonstrate an ability to repay debt or return  
10 equity over a stated period of time. Capital as a  
11 second component of that is equally important  
12 because it defines how much capital or support is  
13 in your organization to support the execution of  
14 your business plan and to realize your returns.  
15 Collateral represents additional assets. It can  
16 range from hard assets to intellectual property to  
17 intangibles that a lender can look to for a  
18 secondary source of repayment should your loan go  
19 into default. Collateral is germane in some but  
20 not all industry sectors and it has different  
21 meanings in the context of private equity.  
22 Conditions represent the bases on which a lender

1 is willing to lend. This is represented by your  
2 financial covenants, required documentation and  
3 disclosures. The conditions allow the lender to  
4 evaluate you as a borrower at the commencement of  
5 a loan and to provide a mechanism for monitoring  
6 your company's performance over time. The last  
7 thing I mentioned is character because what's  
8 really interesting is that as a lender you go  
9 through all the financial models, you look at the  
10 industry, you look at the sector, you run all  
11 these, and then you got to look at the person  
12 across the table in the eye and make an assessment  
13 about whether that individual is going to return  
14 your money to you. It's the same concept whether  
15 you are in the private equity sector or in the  
16 banking business. I mention it with such emphasis  
17 because I think that people often lose that  
18 perspective, that at the end of the day as a  
19 manager or as an owner you have to convince  
20 someone that they're going to get their money back  
21 and what's different is that you can lose your  
22 money and your investors or your lenders, your

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1 investors in particular, may not be angry with you  
2 because they took a risk and the company just did  
3 not perform. But what investors and lenders can't  
4 and won't tolerate is a lack of integrity, a lack  
5 of judgment, a lack of commitment and passion to  
6 your business.

7 Character is a subjective criteria and  
8 so it's the nuance that sometimes allows some  
9 people to have access to credit and some investors  
10 to not have that access. I would be naïve to  
11 suggest that that suggestive criteria is not  
12 without bias and that in fact we have a lot of  
13 investors in this room I'm sure who have put  
14 together models and presented to banks and  
15 presented to investors and found that they were  
16 not well received. It's that nuance where we all  
17 have to be careful. We have to be mindful and  
18 think how to always put our best face forward to  
19 attract capital and support for our business  
20 objectives.

21 The last thing I want to say that  
22 despite all of the character and despite the



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1 financial models, despite the conditions and all  
2 else, you have the broader market in which to  
3 operate, and unfortunately we're in a situation  
4 right now in which the markets are very weak.  
5 We're all aware of what's happened over the last  
6 12 to 15 months, the demise of Lehman Brothers and  
7 AIG, the consolidation of banks, the ownership  
8 positions that the federal government has taken in  
9 companies. All of this creates an environment in  
10 which lending is careful, private equity is  
11 careful, and it is very difficult for small and  
12 midsized companies to attract capital when the  
13 banks are being forced to delever by their  
14 regulators and in which private equity investors  
15 find it difficult to put any leverage on their  
16 investments for returns.

17 So unfortunately we're kind of in a  
18 perfect storm environment right now, but this too  
19 shall pass. I'm at an age in which this is the  
20 third major cycle that I have gone through and we  
21 have a tendency to go from being overly exuberant  
22 to overly conservative, but the markets always

1       tend to recovery, and I'm optimistic that with the  
2       stimulus plan from the Obama administration, from  
3       the increased efforts from the SBA, from the fact  
4       that banks and investors have to go out and put  
5       money at risk in order to get a return, that we're  
6       on a track in which we will see some recovery in  
7       the economy by 2010 and that hopefully more  
8       capital will be available for this community.

9               With that in mind, I encourage you to  
10       stay diligent with the execution of your business  
11       plans and to make sure that you develop all five  
12       of those components for success, particularly the  
13       last which is the integrity that is necessary for  
14       both lenders and private investors to make a  
15       commitment to you. Thank you.

16              MR. REED: Thanks, Dwight. I thank the  
17       panelists, that we have such a talented and  
18       experienced group of people here, so I thank you  
19       for being here and giving your expertise on the  
20       panel. But I also want to extend my thanks for  
21       your willingness to spend the day with us as they  
22       will be here obviously this afternoon meeting with

1 many of you individually to talk about your  
2 business plans. So I thank you for that. RUS is  
3 going to be here, Gary Bojes and Maureen Lewis  
4 will be here as well and those meetings are set,  
5 so I just wanted to say that.

6 Those sessions are really about critical  
7 analysis and mentoring in nature. It's less about  
8 the viability of the business plans and more about  
9 the strength of your presentation, the ingredients  
10 that are there, the types of things that these  
11 investors are looking at so that you can be best  
12 positioned as you seek financing to put your best  
13 foot forward. So I thank you for that and thank  
14 you for this afternoon.

15 We've got a question here from Cissy  
16 Baker who's with Access Washington who has a  
17 company and has a great idea. There are a number  
18 of bureaus that are rapidly closing, D.C.  
19 broadcasting bureaus are closing, and her idea is  
20 to fill that gap and provide D.C. and Washington  
21 based content to local stations. Her question is  
22 this. She asks, If we are a first time startup,

1 what do we need to bring to the table to attract  
2 money from a private capital company or an angel?  
3 I just open that up to the panel.

4 MS. GRAHAM: I'll try that one first.  
5 As a startup particularly with the business that  
6 you're thinking about, if you're going to the  
7 angel community, you really are trying to go to  
8 someone that understands the business itself that  
9 can help you in developing your strategy and  
10 growing your business. Angel investors though are  
11 harder to find right now are typically people who  
12 are very active and can be proactive with you in  
13 helping to develop your plan. They tend to be  
14 very patient. What you need to present to them  
15 obviously is an opportunity, what the investment  
16 opportunity looks like, your ability to have some  
17 sort of barrier to entry if there is some, if you  
18 talk about providing content in the D.C.  
19 marketplace, what's your differentiator, what  
20 makes you different from somebody else, how  
21 quickly can you dominate. I keep using that word  
22 because we like to get companies who are going to

1 have a dominant market position ultimately and we  
2 don't like to look at me too situations, so the  
3 extent that you have a product and service that  
4 can be easily differentiated, it gives you some  
5 head start.

6 Startup money is very difficult to find.  
7 I think you have to be very creative in trying to  
8 come up with ways to get into the market to show  
9 some traction for the business so that you can  
10 make a case that there is a need indeed for your  
11 product or service. But that's how you would need  
12 to begin to position yourself to be attractive to  
13 anyone who's willing to look at putting money at a  
14 very early stage of a business.

15 MR. REED: Arun?

16 MR. GUPTA: The other thing I'd add to  
17 that is validation, and that validation can take a  
18 lot of different forms. It could be talking to  
19 your end customers or perspective customers and  
20 being able to say here are 10 different people  
21 I've talked to and here is why they think it's  
22 attractive and would want to work with me and

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1 things of that sort. I could be talking to  
2 potential partners. If I could actually do this,  
3 here's a group of partners that would be able to  
4 and be willing to partner with me to distribute my  
5 content in this case.

6 It also can take the form of bellwethers  
7 or industry leaders in the space, you convincing  
8 somebody, whereas I may not be as attuned to that  
9 space, but if you're able to convince somebody  
10 that is a former Washington bureau of a large  
11 media company to join your advisory board or  
12 somebody that has deep domain expertise to join  
13 your team, that's validation, that really smart  
14 people that know what this is about think this is  
15 a good idea.

16 I think where it becomes difficult at  
17 times is when we see pitches or meet with teams  
18 where the entrepreneur has an idea and is really  
19 just pitching us the idea, because the idea is  
20 probably, I hate to say it, the easy part of the  
21 whole equation. The harder part is being able to  
22 show that you are able to sell the idea to some



1 constituents out there and they liked it, and  
2 without that validation it ends up being a short  
3 meeting.

4 MS. KREISMAN: As a practical matter,  
5 what's the minimum amount of money does Cissy need  
6 to go to do something like this? What range?

7 MR. GUPTA: I wouldn't be able to  
8 comment on it without knowing her business.

9 MS. GRAHAM: It's hard to pull a number  
10 out of the air, be it a function of what she's  
11 trying to accomplish in this space of the business  
12 and what she thinks based upon her own set of  
13 projections what kind of capital needs would fall  
14 out of that financial analysis.

15 MR. BUSH: Thomas, may I make one other  
16 comment about validation? I think it's really  
17 important. Nothing succeeds like success and what  
18 you need is as you approach investors is you need  
19 to be able to demonstrate that you have had a  
20 history of success in other endeavors that you've  
21 been involved in. The crafting of that story is  
22 really important. I think that that's what draws

1 some of the angel investors that you mentioned.  
2 It's either someone who believes that you're  
3 credible as a professional, have demonstrated an  
4 ability to execute a plan or do something  
5 successful in the past, and that you've got this  
6 sort of buy in from some other interested parties,  
7 either someone recognized in the industry who is  
8 validating you by agreeing to come on your board  
9 or someone who's validating by agreeing to put in  
10 along with you for example the first \$100,000 or  
11 whatever it is to demonstrate both that you've  
12 been successful and that they perceive you as  
13 being a person inclined to success.

14 MR. LEVINE: Barbara, to answer your  
15 question, when I started my business that  
16 eventually got over \$200 million in revenue, it  
17 costs 19 cents because it was a Bic pen to sign my  
18 house as collateral to the bank. So it can take  
19 many forms.

20 MR. REED: As we talk about telecom  
21 businesses and new entrants in telecom, what kinds  
22 of private lending institutions are out there that

1 specialize in telecom and how do our audience find  
2 those folks? That's open to everybody.

3 MR. BUSH: My personal view is that it's  
4 a very tough market right now because of certain  
5 things. One is that the industry by nature is a  
6 volatile industry and when you take a volatile  
7 industry and you're looking for credit at a time  
8 when the banks are trying to shrink, you're the  
9 least likely to attract debt. For a small  
10 business, I think to Mark's point, if you can find  
11 other networks of borrowing, that probably suits  
12 you best at this time. In fact, that doesn't look  
13 like borrowing, it actually looks more like  
14 investing than borrowing. But my experience right  
15 now is that when I look at the large money center  
16 banks, they're all shrinking. I don't see them  
17 making a lot of new commitments to emerging  
18 companies and emerging industries. The regional  
19 banks are experiencing difficulty because they  
20 have concentrations of commercial real estate  
21 portfolios. The small banks really don't develop  
22 the industry expertise because they can't create

1 enough scale, if you will, in their local  
2 communities to make those types of commitments.  
3 So I think that for the near term, just being  
4 honest, it's very difficult to attract bank debt.

5 MR. LEVINE: I would very much second  
6 that, and I think that unless you have a solid  
7 asset base, you shouldn't even look for it, and  
8 I'll tell you that in most cases right now a  
9 lender would probably not consider a license an  
10 asset where they might have done that 4 or 5 years  
11 ago or 2 years ago or 3 years ago. So accounts  
12 receivable is about the money asset you'll be able  
13 to get some kind of leverage against. It makes  
14 you think hard, or SBA, because debt has to be  
15 paid back. Debt is not equity, and starting a  
16 company you need some sort of equity whether it's  
17 sweat equity, whether it's cash, whether it's  
18 contributions from employees in return for stock  
19 or buying an asset in return for stock. That's  
20 really the way you need to look at financing your  
21 business.

22 MR. REED: This question is from Ann

1 Lynton, What are your thoughts on the effect of  
2 health IT on the communications market and will  
3 you invest in health IT if possible?

4 MR. GUPTA: I think the effect of health  
5 IT in the communications market has the potential  
6 to be very meaningful. Will we invest in health  
7 IT per se? It's still TBD to be honest with you.  
8 There are many things that we will be investing in  
9 which may be the underlying or enabling  
10 technologies that enable some of the things,  
11 whether it be electronic medical records and  
12 things of that sort, to be out there. But the  
13 health care system is a very unique animal and  
14 it's one that you don't really know all the  
15 partners and the relationships, you don't really  
16 understand all the landmines that are there as  
17 well. We have probably a nuanced view of that  
18 which I'm sure many of our companies will either  
19 be beneficiaries or tangentially involved with the  
20 spending that will take place around health IT. I  
21 don't know if that necessarily means that we're  
22 investing in health IT in and of itself, but I do

1 think there are funds that will be out there that  
2 will probably be a little bit more health care  
3 focused that have an understanding of the industry  
4 structure and opportunities that may emerge from  
5 that that will be looking at this space pretty  
6 actively.

7 MS. GRAHAM: I think one thing to  
8 consider with health IT, because this has been  
9 something that's been talked about for so long, is  
10 the rate of adoption and I think that's where  
11 we're still trying to understand how quickly will  
12 it get integrated into the system because it's  
13 still a very slow rate of adoption and with that  
14 you really can't predict your time holding horizon  
15 in a transition like that until we get a better  
16 sense of what the rate of adoption will be now  
17 that health IT is moving. We've been talking  
18 about health IT for years. It just didn't pop up  
19 and it's been a slow, painful adoption process and  
20 so that's still a big question out there when you  
21 start thinking of investing in this sector.

22 MS. KREISMAN: This is a media based

1 question. It's a matter of curiosity on my part.  
2 I was heavily involved in the DTV transition which  
3 was a very significant transition in our country  
4 and I listened to you talk about the model. I've  
5 read that especially the television broadcast  
6 stations are hurting. Their cash flow has  
7 diminished. They've lost advertising dollars.  
8 But it seems from where I'm sitting that what they  
9 have is much more valuable than what it was  
10 before. They can have multiple programming  
11 streams, they can use some of their spectrum for  
12 even subscriber based services. But I haven't  
13 read any place that that's been capitalized on or  
14 made use of or changed the business model. Is it  
15 something that's going to happen in the future or  
16 never happen, or is it too early or is there just  
17 bad timing with the recession?

18 MR. LEVINE: I think it's confusion  
19 inside the industry, but I do think that through  
20 the Open Mobile Video Coalition and the new ATSC  
21 standards, Dell is about to issue notebook  
22 computers with ATSC MH embedded. Then combined

1 with whether threat is the right word or the  
2 potential value of the unused spectrum that the  
3 broadcasters hold right now I think will create a  
4 little bit of a cycle initially where use of that  
5 spectrum will be considered on a higher order and  
6 I think you may see new applications. You'll fits  
7 and starts, you'll see some things that don't  
8 work, some things that do work. The media flow  
9 network that was built by Qualcomm, I think  
10 there's a little bit of soul searching going on  
11 there and how that may relate and how ATSC may  
12 relate to that and what lessons can be learned out  
13 Qualcomm's big investment there. But in general  
14 I'm hopeful that over the next 12 to 18 months  
15 we'll see more use and different use and higher  
16 use of that spectrum.

17 MS. GRAHAM: I think there's also been a  
18 mindset change for the owners of properties who  
19 for a long time said I'm a radio broadcaster, I'm  
20 a TV broadcaster, you are an owner of content that  
21 can be delivered over multiple platforms and once  
22 you accept that as the thesis of your business



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1 then you start to look at how to proliferate that  
2 content across those platforms. It's been a slow  
3 mindset change but I think as you're seeing that,  
4 to Mark's point, you'll start to see more  
5 adoption.

6 MR. REED: Anita, as a follow-up to that  
7 point, Frank Montero was talking about the credit  
8 crunch that minority radio owners are facing and  
9 how that's making it difficult in the next year to  
10 18 months for them. You mentioned multiple  
11 platforms for content as we talk about the crisis  
12 in minority radio in broadcasting. What is your  
13 sense and what are you looking at with respect to  
14 some of the minority owners in terms of what kinds  
15 of broadband applications should they be looking  
16 at or that you find attractive if that's a fair  
17 question?

18 MS. GRAHAM: We've been looking at  
19 clearly online strategies. We understand that you  
20 have a community of listeners and so our thought  
21 process about how do you take advantage of  
22 opportunities is what do you do with that

1 community of listeners. We've seen a lot of  
2 business plans along social networking if I could  
3 use that broad term. We've seen a lot of plans  
4 along those lines being able to take those  
5 listeners, educate them, talk about issues and  
6 concerns whether it's health care or whether it's  
7 just general niche discussions, whether it's  
8 ethnic market discussions or the like. We're  
9 seeing a lot of those kinds of opportunities that  
10 we're taking a close look at because you can take  
11 advantage of community of listeners that you  
12 already have and now you can educate them, you can  
13 migrate them to different areas, you can do a lot  
14 with that consumer and keep them listening to you  
15 on a regular basis. So that's what we're seeing,  
16 a lot of social networking plans.

17 MR. REED: Let me open it up to the  
18 panel, even going beyond broadcasters since we are  
19 having in some respects a broadband discussion,  
20 when you're looking at companies that you would  
21 potentially invest in, to what extent is looking  
22 at their plan for be it distribution or

1 communication through broadband, what part does  
2 that play in your analysis of your business plan?

3 MR. GUPTA: I think it depends on the  
4 company. We don't want someone to be force  
5 fitting a square peg in a round hole, that if they  
6 application or service or product is relevant or  
7 more relevant on broadband, that's great. Having  
8 said that, we do believe that we are moving into a  
9 more ubiquitous world of broadband and are looking  
10 for applications and services that can take  
11 advantage of that and will take advantage of that.  
12 I'll give you an example. We're looking at a  
13 number of things in the wireless broadband arena  
14 just given the smart phone proliferation that's  
15 taken place and things that we would not have  
16 looked at 3 or 4 years ago, now that we hadn't  
17 been talking about it for frankly the last 9 or 10  
18 years, but you're finally getting a confluence of  
19 both network infrastructure, user friendliness of  
20 devices at a point where you can now do some  
21 pretty interesting things. The obvious flagship  
22 example is the Apps Store. But we've got a couple

1 of companies that are doing wireless advertising  
2 which again is not a new concept, but finally the  
3 networks and the broadband is really enabling wide  
4 proliferation and real dollars being spent in that  
5 space. We're investors in a local company here,  
6 Millennial Media, that's doing very well. One of  
7 their competitors was just bought by Google at a  
8 pretty steep premium. So again a lot of this is  
9 market timing and there have been a number of  
10 companies doing the exact same thing that started  
11 5 years ago or 9 years ago, but then the networks  
12 just weren't there yet. In that context we are  
13 taking a view that broadband will be more  
14 ubiquitous and are looking at applications that  
15 will serve that. Having said that, without  
16 knowing what application or service someone is  
17 looking to deliver, it's not a deal stopper if it  
18 doesn't have a broadband story to it because it  
19 could still be a perfectly viable business without  
20 that.

21 MS. KREISMAN: Do we present any  
22 barriers to your investment choices? On the

1 broadcast side we hear all the time that our rule  
2 that does now allow you to take a security  
3 interest in the license is a problem and I'm sure  
4 we have a limit on foreign investment at least on  
5 the broadcast side. How much are we messing  
6 things up for the industries and your  
7 opportunities to invest and your comfort level?

8 MS. GRAHAM: I heard from the other  
9 panel and I would agree that there are some  
10 bottlenecks in the system with respect to foreign  
11 ownership. I think that cuts off an opportunity  
12 for capital. I think the biggest hurdle for us  
13 any rule that doesn't recognize that private  
14 equity investors are 5 year horizon investors,  
15 that we really want to look to get out anywhere in  
16 that 3 to 5 year period, any rule that would  
17 suggest that we have to hold an investment for  
18 longer than that is completely opposite of the way  
19 we operate and have to operate our business. So  
20 if I had to single out one thing, it would be  
21 that.

22 MR. REED: We're reaching the end of the

1 hour, but I want to give everybody an opportunity  
2 to offer some closing remarks on one hypothetical  
3 which is a corollary to Cissy Baker's question.  
4 As a small contractor and I come into your office,  
5 I lay fiber for cable and telephone companies, I  
6 also contract with large carriers to do their  
7 wiring for homes and offices to connect them to  
8 broadband and internet. I'd like to make the leap  
9 to own the fiber that I'm laying. I've got no  
10 clue about financing and I show up on your  
11 doorstep. For each of you, what do I need to do  
12 to make my company attractive to get the financing  
13 that I need? Who are you taking seriously and  
14 why? I'll start with Dwight.

15 MR. BUSH: That's actually interesting  
16 because the first thing I would say obviously is  
17 that you need a really good business plan which  
18 lays out your revenue projections and your client  
19 base. What I would look at is if you are laying  
20 fiber for a third party is whether that entity has  
21 a credit worthiness such that you could use the  
22 receivables from them as security for a loan. To

1 the extent that you're trying to develop yourself  
2 as a fiber company, I need to understand your  
3 supply side as well as your take side. If there  
4 are going to be some long term contracts that are  
5 used to secure financing for you, that's something  
6 I would interesting and take a look at. Again, at  
7 the end of the day I want to understand a whole  
8 lot about your management team and how successful  
9 they've been in this type of initiative in the  
10 past.

11 MR. LEVINE: I would echo Dwight, and I  
12 think one of the things that would really be  
13 telling is going through the exercise of the  
14 business plan you begin to understand what are the  
15 cash requirements the business needs and then what  
16 are some of the alternatives. Again, the first  
17 thing I would look at is what's the value of that  
18 contract. Nobody wants to finance the third  
19 party's business through you, but they would like  
20 to see value in that contract and if there's value  
21 that can be unlocked to provide cash flow for the  
22 business. Then it's a matter of access and cost.



1 Money from us would be much more expensive than  
2 money from a bank, and once you understand that  
3 dynamic then you can go back and look at features  
4 in the contract that you may be able to  
5 renegotiate or you may be able to target as you  
6 negotiate with your customer. It's that insight  
7 into the business that stems from building a  
8 business plan and understanding what your  
9 requirements are.

10 MR. GUPTA: I agree with the comments  
11 that were said earlier. The thing that I would  
12 probably add is look at your team as well. I  
13 really want to be comfortable with you, but you've  
14 been able to recruit and bring on board  
15 individuals who will help you from an operational  
16 perspective manage this company the way you're  
17 looking to manage it going forward, but more  
18 importantly, being enable you to scale it in a way  
19 that would make it meaningful for us as equity  
20 investors to want to participate in a round like  
21 this. A number of these things again sound good  
22 on spreadsheets and PowerPoint documents, but

1 being able to go and recruit individuals who have  
2 a high degree of domain expertise that would be  
3 pertinent to what you're doing would mean a lot.

4 MS. GRAHAM: I would agree with  
5 everything that has been said. I would add one  
6 thing. Know the capital that you're going after  
7 because all deals are not correct for private  
8 equity and if you've got a growth curve that is  
9 probably not pretty aggressive, then you may or  
10 may not want to interact with a private equity  
11 investor. You might be looking for mezzanine, you  
12 might be looking for some debt capital. So in  
13 your own research, understand the right capital  
14 that you think is going to be most appropriate for  
15 your business and then do the research on the  
16 people who you come and talk to. All of these  
17 folks here and I would agree that our time is  
18 about that much and we see deals this high and it  
19 helps if you've done enough work to bring us  
20 something that's in our sweet spot because that  
21 cuts down on unnecessary discussions or not  
22 returned phone calls, or however people begin to

1 engage, you don't want to be in that situation.

2 So those are my two comments to add.

3 MR. REED: One final follow-up. Barbara  
4 had asked a little while ago about regulatory  
5 obstacles. Anita, you mentioned choke points that  
6 were mentioned earlier. Speaking in terms of a  
7 wish list, what kinds of regulatory or legislative  
8 fixes would you like to see happen in a general  
9 sense? And I'd open that up to everybody. We'll  
10 start with Mark though.

11 MR. LEVINE: What we tell our businesses  
12 is government regulatory efforts don't crush a  
13 business and they don't make a business, that it's  
14 how you operate within the framework. As a board  
15 comment, and I think the FCC does an excellent job  
16 in this regard, is consistency and clarity in rule  
17 making and auction policy, and I think by and  
18 large the agency has been pretty successful with a  
19 pretty difficult mandate.

20 MR. GUPTA: I think as an equity  
21 investor in this space, that thing that matters  
22 most to us is some level of predictability within

1     policymaking. We know that's going to change and  
2     that's why institutions like this especially as  
3     administrations change, I think radical change is  
4     always a little bit more difficult as opposed to  
5     evolutionary change because it allows time to sink  
6     in and capital not to stand on the sidelines  
7     because they're concerned about the law of  
8     unintended consequences to whatever policy changes  
9     may have taken place. So I think again  
10    consistency, predictability and clarity are  
11    probably all we can ask for from a framework  
12    perspective and then after that we need management  
13    teams that can execute well within that.

14                 MS. GRAHAM: I would agree that  
15    consistency is the key thing. You hate to invest  
16    in a company and then suddenly you're looking at a  
17    whole new set of rules that challenge the  
18    investment thesis that you looked at before you  
19    made an investment in the company. So I would  
20    agree with that. I was in the business when we  
21    had the tax certificates, so when you talk about  
22    transfer of assets to small and disadvantaged

1 minority businesses, anything that can help  
2 facilitate again that transfer of assets whether  
3 it's a tax certificate or whatever form it takes I  
4 think is something to obviously be reconsidered.

5 MR. BUSH: I would say that the  
6 consistency of policy is very important, but I'd  
7 also say that I would take a critical look at some  
8 of the policies to see if it's time to change. By  
9 having the foreign ownership rule you preclude  
10 access to billions of dollars of equity to support  
11 the objectives of the Commission at a time when  
12 U.S. Sources are not stepping up to the table.  
13 With respect to the licenses from a lending  
14 perspective, banks spend a lot of time thinking  
15 through structures that functionally give them  
16 control over those licenses in the event of a  
17 bankruptcy and what they do know is that at the  
18 end of the story there is an asset that would make  
19 it easier for them to lend against if they could  
20 have a perfected security in it.

21 MR. REED: With that I am going to  
22 adjourn this session. I'd like to thank our

1 panelists for their advice and their time. Again  
2 thank you for your participation this afternoon.  
3 Karen Beverly is here for those of you who are  
4 going to be participating in the afternoon  
5 sessions. She will have the sign-up sheets and  
6 your schedules. She's right over here. I believe  
7 since it's fairly tight, the sessions are starting  
8 at 1:30, folks have access to Capitol Café which  
9 is very good. I'm sure some would disagree with  
10 me, but I think it's good, so if you want to grab  
11 some lunch quickly before coming back. Thank you  
12 very much.

13 (Whereupon, the PROCEEDINGS were  
14 adjourned.)

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## 1 CERTIFICATE OF NOTARY PUBLIC

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