

New Study Finds FCC Spectrum Auctions Prone to Anti-Competitive Behavior

Study Endorses Innovative Leasing Proposal Offered in Application of M2Z Networks to Build Nationwide Free Broadband Service

Menlo Park, Calif., March 28, 2007 – A new study filed with the Federal Communications Commission (FCC) finds that the FCC's use of auctions for assigning spectrum licenses could be subject to anti-competitive behavior by incumbent carriers.

The study performed by Dr. Simon Wilkie, former chief economist at the FCC and current head of the University of Southern California Center for Communications Law and Policy, reviews past auction results and finds that auctions do not work in all circumstances to secure for the public the benefits of the efficient use of spectrum as the law requires the FCC to do. For example, in the recent AWS auctions, the study found that 98% of the spectrum in major metropolitan areas went to incumbents, effectively shutting out any new entrants.

Spectrum Auctions are not a Panacea: Theory and Evidence of Anti-Competitive and Rent Seeking Behavior in FCC Rulemakings and Auction Design, identified and analyzed four anti-competitive tactics that incumbents use to manipulate the spectrum auction process:

- Strategically warehousing spectrum in order to prevent entry for potential competitors;
- Delaying the decision-making process at the FCC by drawing out debates over service rules and unquantifiable arguments over technical matters and other means;
- Adopting a no holds barred bidding strategy to block new entrants in auctions with insufficient safeguards against incumbent carriers' potentially anti-competitive tactics, and no caps on the overall amount of spectrum that incumbents may hold; and
- Slicing new available bands for private commercial use that make it more costly or impossible to build a viable national competitive business plan to challenge the incumbents' dominant position.

The study was requested by M2Z Networks, Inc., which has an application pending before the FCC seeking a 15 year lease for spectrum in the 2155-2175 MHz range. In return, M2Z has promised to build a fast, free, family-friendly wireless broadband network that will reach 95% of all Americans within 10 years.

"Although spectrum auctions are championed as the transparent means to an end of always efficiently assigning spectrum to its highest and best use, a review of past auction results reveals this is not always so." said Dr. Wilkie. "Recent advances in auction theory and evidence in the record suggests that the

regulatory and auction processes at the FCC can and has been manipulated by incumbents to prevent or delay market entry by new innovative competitors like M2Z. This can lead to sub-optimal assignment of licenses and potentially large losses to consumer welfare."

"As Silicon Valley investors, we know that there is a clear need for an open and affordable platform like M2Z's network for the new and innovative broadband applications being developed here, said Geoff Yang of Redpoint Ventures, one of M2Z's investors. "As Dr. Wilkie's paper points out, entrenched competitors can use the lengthy rulemaking processes and open-ended auctions to prevent entry by new competitors like M2Z. The record filed in response to M2Z's application supports this finding since nearly all of the opponents to M2Z's license application are entrenched broadband carriers or wireless licensees."

M2Z, in documents filed with the FCC yesterday, pointed to Section 309(j) of the Communications Act, which gives the FCC full authority to approve M2Z's application because M2Z has proven its application and supporting commitments are in the public interest.

About the Study's Author

Professor Simon Wilkie is the Executive Director of the [Center for Communication Law and Policy](#). His research focuses on game theory, its application to regulation and policy design, and the economics of the communications industries. His most recent research is on the wholesale telecommunications market and the concept of diversity in media markets. Prior to joining USC, he was an Assistant Professor of Economics at the California Institute of Technology and a Member of Technical Staff at Bell Communications Research. He was also a visiting faculty member of Columbia University. He served as Chief Economist at the Federal Communications Commission from July 2002 to December 2003.

About M2Z Networks, Inc.

Founded in 2005 and headquartered in Menlo Park, Calif., M2Z Networks' goal is to transform the current state of the broadband marketplace by building a high speed wireless network throughout the United States. In May 2006, the company submitted a license application to the Federal Communications Commission to construct and operate a nationwide broadband wireless network in the 2155-2175 MHz spectrum band. Approval of the application would guarantee delivery of free, fast and family-friendly wireless broadband service to at least 95 percent of Americans in a 10 year timeframe. M2Z is backed by Kleiner, Perkins, Caufield and Byers, Charles River Ventures, and Redpoint Ventures, three of the most successful venture capital firms in Silicon Valley with \$5 billion of capital under management. For more information, please visit www.M2Znetworks.com

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For more information or to receive a copy of Dr. Wilkie' study, please contact Robin Buckley on behalf of M2Z Networks at 703.533.9805 or rbuckley@m2znetworks.com