

**Before the  
FEDERAL COMMUNICATIONS COMMISSION  
Washington, D.C. 20554**

In the Matter of	)	
	)	
Connect America Fund	)	WC Docket No. 10-90
	)	AU Docket No. 17-182
	)	

**COMMENTS OF BEK COMMUNICATIONS**

On August 4, 2017, the Federal Communications Commission (“FCC” or the “Commission”) released a Public Notice seeking comment on the competitive bidding procedures and program requirements for the Connect America Fund (“CAF”) Phase II Auction (Auction 903).<sup>1</sup> BEK Communications respectfully responds to the Commission’s request for comment, and specifically addresses the proposal to use five “simple financial metrics to evaluate the financial position” of Auction 903 applications.<sup>2</sup> The proposed metrics will be reported on the short form application to determine applicant eligibility, and if applicants do not score at least three points (out of a possible five) or have a current assets to current liabilities ratio of less than two may be ineligible, or subject to further financial review in order to determine if the applicant is qualified to participate. As explained herein, BEK believes that the current ratio metric (current assets divided by current liabilities), which is required to have a score of 2 or higher in order to be awarded a point in the scoring system, is not a practical or appropriate metric to use in this context.

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<sup>1</sup> *Comment Sought on Competitive Bidding Procedures and Certain Program Requirements for the Connect America Fund Phase II Auction*, Public Notice, WC Docket No 10-90, AU Docket No. 17-182 (rel. Aug 4, 2017) (“Public Notice”).

<sup>2</sup> Public Notice, at ¶ 60.

According to the Public Notice, the FCC may conduct an in-depth review of an applicant's finances if the applicant scores "less than three points or a score of zero for the ratio of current assets to current liability..."<sup>3</sup> (emphasis added). BEK interprets this to mean that an applicant could have a score of four, but still be subject to an in-depth financial review if it scores a zero because its current ratio is less than two. BEK does not believe that having a current ratio of less than two is an indication that an applicant is in poor financial shape – if anything, it is an indication that the company is utilizing its cash to fund broadband deployment and network upgrades and expansion.

Applicants who have been continuously investing in broadband networks will not have a high current ratio, presumably because their assets are being utilized for costly buildout projects or they are currently in the process of accumulating debt to cover the cost of the buildout projects. Either way, it will be difficult for small broadband providers to show a current ratio of at least two, unless the applicant is essentially sitting on its cash reserves. If that is the case, there is a strong argument that the applicant does not need the extra support from the Connect America Fund Phase II auction to deploy broadband – why isn't it doing so already? BEK believes that the FCC can better determine an applicant's liquidity and overall financial health by reviewing its audited financial statements, which will be required in the CAF Phase II process. Furthermore, a current ratio of two is exceptionally high compared to industry standards and may penalize applicants who are in exceptional financial condition but also in the process of a buildout or network upgrade that would require substantial use of cash. According to industry standards, a current ratio of one is typically the benchmark; but again, with a broadband provider in the midst of a large-scale deployment project, a ratio of below one may not indicate poor

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<sup>3</sup> Public Notice, at ¶ 58.

financial shape. Likewise, a high current ratio over two might not be an indicator of exceptional financial health, as it may indicate that the company is not utilizing its assets efficiently. The current ratio is not a particularly telling metric and should not be considered so importantly on the FCC's financial scoring criteria in the CAF Phase II short form.

BEK urges the FCC not to require a current ratio of two or greater in order to be awarded a point on the financial scoring section of the CAF Phase II short form application. At the very least, the Commission should not be compelled to take a deeper look at an applicant's finances if its financial score is otherwise a three or a four, but it does not score a point for the current ratio. The current ratio metric is not indicative of a rural broadband provider's financial health and should not be relied upon by the FCC to make important decisions about a provider's eligibility in the reverse auction.

Respectfully submitted,

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