

# ACCEL PARTNERS

PRINCETON SAN FRANCISCO

July 20, 1994

HAND DELIVERED

Mr. William F. Caton  
Acting Secretary  
Federal Communications Commission  
1919 M Street, Room 222  
Washington, DC 20554

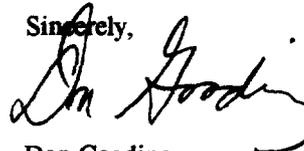
Re: ET Docket No. 93-266  
Ex Parte Presentation

Dear Mr. Caton:

In accordance with Section 1.1206(a)(1) of the Commission's rules, attached are two copies of an ex parte letter submitted today for inclusion in the above-referenced docket.

Should you have any questions concerning this matter, please do not hesitate to contact the undersigned directly.

Sincerely,



Don Gooding  
Accel Partners

Enclosures

No. of Copies rec'd 0+2  
List A B C D E

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FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF SECRETARY

Re: ET Docket No. 93-266  
Ex Parte Presentation

Dear Mr. Caton:

Attached is a submission from Accel Partners regarding the debate over Pioneers' Preference. It is still an accurate representation of our viewpoint, but subsequent developments in Congress and the FCC deserve additional comment.

Under pressure from Congress to maximize auction income, the FCC is considering actions that would re-cut the initial deal it made with companies that previous Commissioners believed were Pioneers in bringing new wireless services to the American public. To draw an analogy to our venture capital business, it would be as if we promised entrepreneurs that they would own 90 percent of a business if they accepted our investment, but after they worked for nine months to make good on their end of the bargain, we told them they would own only 10 percent because the business was too valuable.

That this is unfair seems obvious. But the more disturbing part of these proceedings is that Congress and the FCC seem willing to impose retroactive burdens on entrepreneurs when significant amounts of money are involved. These actions certainly cast doubt upon the recent fair-minded actions taken in parallel by the FCC to set aside PCS frequencies for entrepreneurs, minorities and women.

We have watched and waited for the FCC to establish "final" rules for PCS. We were heartened by the rules that were recently announced. If these rules hold, and are not compromised by subsequent administrative fleshing out, they should be sufficient to attract the large pools of capital required by entrepreneurs, minorities and women to acquire and build PCS franchises.

However, the actions taken and being contemplated by the FCC on Pioneer's Preference give us pause as to whether the current terms by which entrepreneurs, minorities and women can purchase PCS licenses will remain inviolable. As currently set out, we believe the rules should allow the best businesspeople to build viable businesses, but are not so attractive as to ensure the success of all entrants. If the FCC or Congress were to decide at some later date that the current rules were somehow too generous, would there be another move to re-cut the deal? If world class entrepreneurs create great wealth for themselves and their investors, will Congress want early payment, or a reduction of the discount?

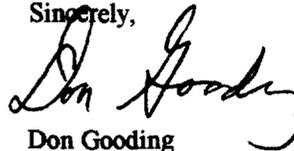
Mr. William F. Caton  
July 20, 1994  
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While the regulatory risk involved in PCS is now reduced, because of the issuance of the rules, it is not eliminated. Accel Partners believes the risk is sufficiently reduced, and the potential of returns is sufficiently high, that we will be moving forward with investments in this emerging industry. However, it is too early to judge whether more risk-averse capital markets - which will play a critical role in financing both the acquisition and construction of PCS franchises by entrepreneurs, minorities and women - will deem the risk acceptable.

Congress and the FCC can significantly reduce the perception of regulatory risk by allowing early PCS Pioneers to reap the financial rewards of their efforts, rather than rescinding earlier promises.

In accordance with Section 1.1206(a)(1) of the Commission's rules, I am submitting to you today two copies of this letter for inclusion in the public record of the above-referenced docket.

Sincerely,



Don Gooding  
Accel Partners

cc (via hand delivery):

Chairman Reed Hundt  
Commissioner James Quello  
Commissioner Andrew Barrett  
Commissioner Susan Ness  
Commissioner Rachelle Chong  
William Kennard, Esquire  
Dr. Robert Pepper  
Mr. Donald Gips

Before the  
FEDERAL COMMUNICATIONS COMMISSION  
Washington, DC 20554

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JUL 20 1994

In the matter of )  
 )  
Review of the Pioneer's Preference Rules ) ET Docket no. 93-206  
FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF SECRETARY

Reply Comments of Accel Partners

EX PARTE OR LATE FILED

Accel Partners is a private venture capital firm with over \$350 million under management, focusing on investments in the telecommunications and software industries. As the attached "tombstone" indicates, we are one of the leading investors in young telecommunications companies, including a number of wireless communications entrepreneurs.

Although we have no affiliation with any Pioneer's Preference recipient, we have been tracking the FCC's process in Personal Communications Services (PCS), along with the evolving policy in Pioneer's Preference, for the last several years. Our early discussions with entrepreneurs seeking a Pioneer's Preference in PCS reflected both uncertainty over the standards for receiving the Preference, as well as naiveté on the part of entrepreneurs. Many felt that large numbers of Preferences would be awarded. We declined to invest in four PCS "experimental license" holders in part because of the uncertainty over the Preference rules; our due diligence indicating only a few Preferences would be granted; and most importantly, the high degree of uncertainty over the timing and nature of the FCC's PCS rulings.

When PCS Preferences were (tentatively) granted, the FCC appropriately set the bar high, and chose a select few firms that made significant contributions to the evolution of PCS services in the U.S. That decision was in line with our own expectations: that only the most innovative firms contributing new architectures, significant technological advances, or major new services would be rewarded with the Pioneer's Preference.

While the early impact of the policy and awards has been positive, our view is that the full impact of a well thought out and executed Pioneer's Preference policy will not be felt for some time. Not until early Pioneers have proceeded through the cycle of reaping their rewards will the entrepreneurial community fully appreciate the benefits of innovation in the licensed wireless domain. Most of the focus of wireless innovation among venture capital backed entrepreneurs has been in the area of new unlicensed products (such as wireless LANs) and existing licensed services (such as cellular, SMR and paging).

While these innovations are important and financially rewarding, they do not achieve one of the original goals of the Pioneer's Preference: stimulating new, innovative wireless services enabled by new technologies and new architectures. Investing in new services, or technologies that enable new services, is higher risk because of regulatory uncertainty.

## **Regulatory Uncertainty**

As investors in early stage companies, we are comfortable with "high risk" projects, when those risks are manageable. By backing good people, partnering our companies with large corporations, and facilitating subsequent capital infusions, we help the companies in which we invest overcome the risks inherent in any start-up. But an uncertain regulatory environment is one of the classic unmanageable risks which discourages early stage investments.

**The current action contemplated by the FCC - eliminating the Pioneer's Preference - would change the rules in the middle of the process and create exactly the kind of uncertainty which constitutes an unacceptable risk for early stage investors.** If the FCC is susceptible to persuasion by large wireless carriers on this issue, what does that mean for the frequencies targeted to small, minority- and women-owned businesses? Indeed, what does it mean to the auction rules as a whole?

## **PCS Uncertainty**

In our discussions with other venture capital firms interested in investing in PCS service providers, we hear echoes of our own uncertainty. With the fluidity of auction rules and technical standards, piled on top of the need to spend equity dollars on securing the license, moving existing microwave holders, building the network, and marketing the service in the face of tough competition, PCS represents a large degree of financial and operational risk. The entrepreneurs who will succeed in such an environment may not be those who sought to develop innovative approaches to PCS. Technical innovation is not only irrelevant to the capital markets considering PCS auction bidding, it may be a negative at this point. Layering technical risks on top of the other uncertainties may not make sense with PCS as currently structured. Thus, it is not surprising that the established European GSM standard is finding adherents among potential U.S. PCS licensees.

By adopting auctions, the FCC has not eliminated the uncertainty that services innovators face with regard to securing a license once their ideas have proven their merit. The Commission has merely substituted multi-dimensional complexity, which is only marginally more manageable for small companies than the chances of the lottery. PCS auctions, or more generally, complex auctions for new wireless services, create an environment that rewards companies with the best lawyers and the deepest pockets, rather than companies with the best ideas and the best technologies.

## **Conclusion**

There's a well known saying in the venture capital industry, that "pioneers are the ones with arrows in their backs." If the FCC chooses to abandon its earlier decisions on Pioneer's Preference, or to diminish or charge for the awards, it will be delivering proverbial arrows into three companies that, in their separate ways, met a high standard of innovation. It will discourage future entrepreneurs contemplating innovative wireless services, and most certainly discourage their potential investors. And it will end an important policy of encouraging innovation - awarding licenses rather than slinging arrows - which was, and still is, a good idea.

# A Decade of Investing in Communications Leaders

<p><b>ACC/Newbridge</b> Multiprotocol Routers \$10 Million Later stage Financing February 1992 ACCEL PARTNERS</p>	<p><b>Agile Networks</b> ATM Backbone LANs \$4.9 Million Start-up Financing November 1992 ACCEL PARTNERS</p>	<p><b>Alentec</b> Workgroup Hub-Routers \$4.6 Million Early Stage Financing December 1989 ACCEL PARTNERS</p>	<p><b>BroadBand Technologies</b> Fiber to the Home \$4.5 Million Start-up Financing December 1988 ACCEL PARTNERS</p>
<p><b>Centrum/3Com</b> Multiprotocol Remote Access Servers \$8.5 Million Early Stage Financing October 1993 ACCEL PARTNERS</p>	<p><b>Clear Communications</b> T-1 Network Management \$2.5 Million Start-up Financing March 1988 ACCEL PARTNERS</p>	<p><b>Collabra</b> E-mail Enabled Information Sharing \$5.9 Million Early Stage Financing April 1994 ACCEL PARTNERS</p>	<p><b>Farallon</b> Network Connectivity for Macintosh and PC Workgroups \$16.2 Million Expansion Financing March 1992 ACCEL PARTNERS</p>
<p><b>First Floor</b> Easy to Use Groupware Software \$3 Million First Round Financing March 1994 ACCEL PARTNERS</p>	<p><b>First Virtual</b> ATM Based Multimedia Communications \$2 Million Start-up Financing February 1994 ACCEL PARTNERS</p>	<p><b>LANspeed</b> Next Generation LANs \$4.8 Million Start-up Financing September 1993 ACCEL PARTNERS</p>	<p><b>MAXM</b> Automated Operation of Networks and Mainframes \$2 Million Start-up Financing June 1987 ACCEL PARTNERS</p>
<p><b>Netlink</b> SNA Internetworking \$3 Million Start-up Financing June 1984 ACCEL PARTNERS</p>	<p><b>Netwise</b> Client/Server Middleware for Legacy Systems \$3.3 Million First Round Financing March 1989 ACCEL PARTNERS</p>	<p><b>Network Equipment Technologies</b> T-1 Private Networks \$7.5 Million Second Round Financing July 1984 ACCEL PARTNERS</p>	<p><b>Optilink/DSC</b> Fiber Optic Digital Loop Carrier Systems \$4.8 Million Start-up Financing March 1987 ACCEL PARTNERS</p>
<p><b>PageMart</b> Personal Communications Services \$2.5 Million Start-up Financing June 1989 ACCEL PARTNERS</p>	<p><b>Parallan</b> High Performance Servers \$3.7 Million Start-up Financing January 1989 ACCEL PARTNERS</p>	<p><b>PictureTel</b> Full Motion Videoconferencing \$9.5 Million Turnaround Financing July 1988 ACCEL PARTNERS</p>	<p><b>Polycom</b> Advanced Teleconferencing Equipment \$3.8 Million Start-up Financing July 1991 ACCEL PARTNERS</p>
<p><b>Racotek</b> Mobile Data Systems Integration \$1.2 Million Start-up Financing April 1989 ACCEL PARTNERS</p>	<p><b>Remedy</b> Distributed Network Management Software \$2.5 Million Start-up Financing January 1991 ACCEL PARTNERS</p>	<p><b>Starlight Networks</b> Digital Video Networks \$2.25 Million Start-up Financing June 1991 ACCEL PARTNERS</p>	<p><b>Synometrics/3Com</b> Switched Ethernet Hubs \$6.2 Million Start-up Financing June 1989 ACCEL PARTNERS</p>
<p><b>Teleos Communications</b> Enterprise Video Networking \$3.5 Million Start-up Financing June 1987 ACCEL PARTNERS</p>	<p><b>Teloquent</b> Software for Managing Public Networking \$4.5 Million Start-up Financing November 1989 ACCEL PARTNERS</p>	<p><b>Traveling Software</b> Mobile Communications Applications \$1.3 Million Secondary Stock Purchase December 1991 ACCEL PARTNERS</p>	<p><b>TSB International</b> Multivendor PBX Network Management \$1.1 Million Expansion Financing May 1985 ACCEL PARTNERS</p>
<p><b>UUNET</b> Internet Services \$1.7 Million Early Stage Financing October 1993 ACCEL PARTNERS</p>	<p><b>Vitalink/Network Systems</b> LAN Bridges and Brouters \$5.5 Million Turnaround Financing August 1986 ACCEL PARTNERS</p>	<p><b>Vivo</b> Desktop Video Communications \$3.5 Million Start-up Financing May 1993 ACCEL PARTNERS</p>	<p><b>WINDATA</b> Wireless Local Networks \$3.7 Million Start-up Financing December 1990 ACCEL PARTNERS</p>

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