Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 20554

In the matter of	)	
	)	
Exclusive Service Contracts for Provision of	)	MB Docket No. 07-51
Video Services in Multiple Dwelling Units and		)
Other Real Estate Developments		)

ADDITIONAL COMMENTS OF WILCO ELECTRONIC SYSTEMS, INC.

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I. PCO'S ABILITY TO RECEIVE FINANCING WILL BE SORELY DIMINISHED BY THE INABILITY TO HAVE EXCLUSIVE CONTRACTS

The PCO's ability to grow is dependent upon its ability to receive financing from outside entities or to grow out of available cash flow. If exclusive contracts are taken away from PCO's, then their ability to receive external financing will be hindered to the point of non-existence. The PCO's inability to cross the Public Right of Way (PROW) limits their return to a fixed object, namely a single building or complex of buildings, for satisfying the expectations of the funding source.

The funding of a PCO is not one plus one equals two, like many other companies. The expectations of the financing market continue to increase, while the PCO presents a steadily depreciating asset. Because of the PCO's inability to cross the PROW, the decision to fund the PCO is driven by individual project, and heavily dependent upon return on investment (ROI) being delivered during the life of a single contract. Capital expenditures made by PCO's, with the exception of equipment used at some PCO's to receive programming, is only used at a single site, are generally site based, and do not contribute to any exponential growth outside of a particular project. Economies of scale must be realized by the project, as a whole, rather than being amortized over the operations of a company. For example, if a PCO decides to work with a single 100 unit apartment building, then the entirety of the infrastructure to service that building must be located at that building. The PCO does not get the benefit of using existing infrastructure costs to offset the cost of a new project, as does an MSO. For a PCO, of average size, to accomplish this

task, the cost would be approximately $250 per home passed, not inclusive of the cost of the individual premise equipment. For the franchised cable operator, the inclusion of a new project is merely a decision of extension of infrastructure. Due to the fact that, as a general rule, one of the stipulations of franchise is coverage of the entire franchised area, the infrastructure costs have already been amortized into a build out cost. An MSO also gets the benefit of utilizing every home passed by the entirety of the build out in its equation, unfettered by the actions of the PCO.

II. THE ACCEPTED SET OF A PCO'S INVESTMENT FORMULAE BY WHICH VAULATION OF PROPERTY IS DERIVED, IS EVER DEPRECIATING DUE TO A LIMITED TERM OF SERVICE AND THEIR ABILITY TO SECURE RENEWAL OF THE CONTRACT

In the example just provided above, the PCO has no less cost than the MSO for the service and maintenance of the system, but rather has limited economies of scale over which to spread the costs associated with the project. In addition to this, the PCO's asset is ever depreciating due to a limited term of service, and their ability to secure renewal of the contract. For the PCO owner to seek equity based funding of their company, they must prove that there is a reasonable exit, by which the investors would receive the expected ROI. However, the depreciating asset of the MDU contract for the PCO serves as a double blow.

When an MSO decides that it desires to exit a specific book of business, there are an accepted set of investment formulae by which valuation of the property is derived. That formula can be number of subscriber times an agreed value per subscriber; or multiples of either revenue or earnings before interest, taxes,

depreciation and amortization (EBITDA). However, in the case of the PCO, we must also deduct from the value of the asset, the following: term of contract, size of area served, remaining term of contract, and expectation of renewal of contract. At most recent acquisition terms, the average value per subscriber for the purchase of an MSO has been approximately $3800 for the period of 1999 - 2007, versus an average price of $1500 per subscriber for the purchase of a PCO. This great difference is created by the fact that an MSO's per subscriber value is also increased based upon longevity of the subscriber relationship, whereas the PCO's subscriber longevity has a fixed length, and is therefore negatively affected by the amount of time the contract has been serviced versus the remaining term of contract.

III. CONCLUSION

Therefore, the sunset of exclusive contracts for PCO's will have the absolute opposite effect on them, as it will for the MSO's. The ban on exclusivity will create new opportunities for the MSO's to receive financing based upon the opening of previously closed markets, and the ability to grow exponentially. Publicly traded MSO's will benefit from additional capital driven by speculation that their market size and competitive advantages will create new tertiary consumer markets, by the elimination of exclusive agreements that kept them out of certain buildings. On the other hand, PCO's will see a diminished capacity to receive financing, due to the increased competition and the inability to benefit from economies of scale from infrastructure investments because they can't cross the Public Right of Way. PCO's

will also find it difficult to compete for the customer base, in the buildings they are able to serve, because of their inability to make equal capital expenditures for branding and marketing. The inclusion of PCO's directly controverts the intent of the Commission to create competition in the MVPD marketplace, as PCO's, in many cases, are the only direct competition to the incumbent MSO or DBS provider serving an area. Until such time as the MVPD marketplace matures beyond the current limitations of technology and distribution methodology, which will allow for more rapid dissemination of competitive MVPD's, the Commission must consider the importance of the PCO as a competitive player in the MVPD space. By regulatory definition, the PCO is limited to a single market, and, if included in the ban on exclusive contracts, would be further hindered by an inability to raise necessary capital. The Commission should carefully consider the negative ramifications to future, and present investments in PCO's, which would come from inclusion of PCO's into the exclusivity ban. If the Commission does not review carefully all of the circumstances surrounding the status, operations, and available financing for PCO's, PCO's will cease to exist, if the asset based financing, collateralized by the contracts for service, were to be deemed in default, due to the devaluation of the collateral and the perceived inability for debt service.

For the foregoing reasons stated in the previous filings and in this filing, Wilco Electronic Systems, Inc. urges the Commission to take into consideration that the PCO's ability to receive financing will be sorely diminished by the inability to enter

into exclusive contracts. This circumstance will inevitably cause a PCO's already steadily depreciation in asset, incur less and less available financing that will enable a PCO to survive and thrive in an already not level playing field and in a highly competitive lopsided marketplace.

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