

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

In the Matter of

) EB Docket No. 07-147
)
PENDLETON C. WAUGH, CHARLES M. AUSTIN, and JAY R. BISHOP) File No. EB-06-IH-2112) NAL/Acct. No. 200732080025
)
PREFERRED COMMUNICATION SYSTEM, INC.) FRN No. 0003769049
)
)
Licensee of Various Site-by-Site Licenses in the Specialized Mobile Radio Service)
)
PREFERRED ACQUISITION, INC.) FRN No. 0003786183
)
)
Licensee of Various Economic Area Licenses in the 800 MHz Specialized Mobile Radio Services)
)

To: Chief Administrative Law Judge
Richard L. Sippel

SETTLEMENT FACT STATEMENT

Pendleton C. Waugh (“Waugh”), by and through counsel, hereby submits a Settlement Fact Statement pursuant to the Judge’s Order (FCC 09M-54) released August 25, 2009, in which the Judge directed Mr. Waugh file a Fact Statement setting forth relevant facts and circumstances regarding his non-participation in a Joint Motion and or Agreement filed by the other parties to this proceeding on August 5, 2009.

BACKGROUND

1. This proceeding was designated for hearing by Order to Show Cause and Notice of opportunity for Hearing, FCC 07-125, released July 20, 2007. The Bureau initiated discovery and Waugh, in response, produced literally thousands of documents. Serious settlement negotiations began with a call from the Enforcement Bureau in May 2008 setting forth in broad

terms what would be agreeable to them. The understanding was that the settlement had to be universal and that Mr. Waugh would have to agree to the following: sever all connections with Preferred Communications Systems (“PCSI”) although he could be compensated by the company for his services and beneficial interest; and refrain from holding an attributable interest in any Commission licensee for a specified period of time although he could continue to act as a consultant and/or employee (for any company other than PCSI or Preferred Acquisitions, Inc.). No such restrictions or conditions were placed upon Mr. Austin. After negotiations with PCSI and Messrs. Austin and Bishop, counsel for PCSI submitted “Respondent’s Joint Settlement Offer to the Enforcement Bureau” on July 23, 2008, stating that it was being submitted at the Bureau’s suggestion. The Joint Settlement Offer provided, inter alia, that the Raymond A. Hebrank Voting Trust, of which Mr. Waugh was the beneficiary, would receive 1,600,000 shares of PCSI Class A common stock and warrants to acquire an additional 500,000 shares of Class B common stock. Four months later, in late November, Waugh’s counsel was advised by PCSI’s counsel that the Bureau had rejected the Joint Settlement outright and would not settle unless all of the licenses subject to this proceeding were surrendered. This was confirmed by Waugh’s counsel by telephone with Bureau counsel. Obviously, this was not an acceptable. The Bureau proceeded to conduct depositions of both Messrs. Austin and Waugh each for a full week in early 2009.

2. In early March 2009, the Bureau called and inquired whether the parties were prepared to seriously discuss settlement and, if so, they must also agree to an extension of time for the Bureau’s exhibit exchange (the Bureau which has the burden of proof and the burden of proceeding with the introduction of evidence was then scheduled to exchange its direct case on March 19). Waugh agreed with the understanding that the Bureau would respond to the earlier

submitted Joint Settlement letting the parties know what provisions were acceptable. No response in writing has ever been received

3. In early May, the parties held a conference call regarding settlement. The Bureau urged the parties to settle, but made it clear that if the words “voting trust” appeared anywhere in the settlement documents, this would absolutely preclude settlement. Mr. Austin followed up with a letter to Mr. Waugh and counsel responded on May 20 stating that although the parties were far apart on the amount of compensation due to Mr. Waugh, this is something that could be negotiated. However the form of compensation, a mere contract right in Austin’s proposal, was a serious problem. In an effort to define the status of settlement discussions, Waugh circulated a Memorandum of Settlement on or about June 6, 2009, a copy of which is attached. In order to resolve the issue as to what form Mr. Waugh’s interest should take, Mr. Waugh engaged a law firm which had experience with future interests. The object was to explore whether there was some way to satisfy the Bureau’s demands and still protect Mr. Waugh’s interests.

4. On June 16, Mr. Waugh received a copy of a letter from Mr. Austin dated June 15, 2009, with a Letter of Intent attached. Copies of both are attached hereto. Mr. Waugh flew to Washington on June 16 to meet with the attorney specializing in future interests and was e-mailed a copy of Mr. Austin’s June 15 letter at the meeting. This letter was discussed with Mr. Waugh’s future interests counsel. There was concern, among other things, to the reference in the letter to other stockholders in PCSI who might disagree with any compensation at all to Mr. Waugh and whether Mr. Austin, could, in fact, bind the company. Moreover, questions were raised as to whether a satisfactory vehicle could be found to meet the Bureau’s demands and protect Mr. Waugh’s interest. Mr. Waugh explained to counsel that he was not simply interested in the form his compensation should take, but in insuring the success of the company.

RECENT DEVELOPMENTS

5. The Bureau organized a conference call for June 29, indicating that there were some “new developments” to discuss. It appeared that the Bureau was under pressure to resolve backlogged cases and to settle this case even if it was not a universal settlement. The Bureau made clear that if Waugh did not agree to a global settlement which was agreeable to the Bureau, the Bureau would enter into a unilateral settlement with the other parties. The Bureau also advised that it was opposed to the intervention of shareholder groups and wanted Waugh to agree to a deadline to respond to Mr. Austin’s Letter of Intent or produce an Executory Agreement resolving the issue of the form Mr. Waugh’s compensation should take. Finally, the Bureau indicated that it wanted to proceed to negotiate the period that Waugh would be banned from holding an attributable interest in a Commission licensee. (It had earlier been agreed that the form of Mr. Waugh’s compensation should be resolved first. Moreover, while the Bureau had earlier demanded that Waugh agree to a ban of ten additional years from holding an attributable interest in any Commission licensee, this was now negotiable according to the Bureau). A conference call was scheduled for the following Monday, July 6, to report back. This call was rescheduled until July 8.

6. On July 8, prior to the scheduled conference call with the other parties to the proceeding, Mr. Waugh circulated a letter (a copy of which is attached) in which he stated his position on a global settlement and the bases for it. In the letter, Waugh, before setting forth his current position on settlement, explained that he did nothing improper but had been cast as the culpable party in the settlement discussions. Although he initially sought to satisfy Mr. Austin

and the Bureau by accepting something different from what he was promised, he could not do so and also protect his interests and those of a majority of PCSI's investors. During the conference call, Bureau counsel suggested that Waugh was not negotiating in good faith and also expressed the view that several of the items Mr. Waugh sought were beyond the Bureau's control. Waugh's counsel was advised that the Bureau would "get back" to us.

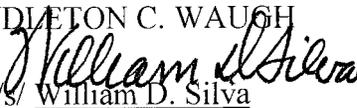
7. On July 20, 2009, Waugh's counsel e-mailed a draft of a Motion for Partial Summary Decision to Messrs. Austin and Bishop. Counsel asked them to join in this effort to resolve the proceeding without further hearing and welcomed comments and suggestions. There has been no response. It is not known whether this Motion was shared with the Bureau.

8. On August, 5, counsel for the Enforcement Bureau telephoned Waugh's counsel and advised that a settlement agreement had been reached with the other parties and that it was being filed that day. Waugh's counsel was e-mailed a copy later in the day on August 5 after it had been filed.

CONCLUSION

This Settlement Fact Statement has been based upon a review of e-mails and the correspondence between Messrs. Austin, his counsel and counsel for Mr. Waugh. The Bureau has never set forth its settlement position in writing except in the final August 5 filing.

August 28, 2009

Respectfully submitted,
PENDLETON C. WAUGH
By: 
By: /s/ William D. Silva
William D. Silva
His Attorney

Law Offices of William D. Silva
P.O. Box 1121
Stevensville, MD 21666
443-249-0109

MEMORANDUM RE SETTLEMENT

To: Parties to EB Docket No. 07-147
From: Bill Silva
Re: Settlement Proposal

The primary difficulty in settling the case has been the form in which the compensation to Mr Waugh should take in fulfillment of the original agreement to issue stock to the voting trust, for services performed which were not fully paid, and for expenses which were not reimbursed. The positions of the parties are summarized below:

The Bureau is not concerned with the amount of compensation, but will not agree to any settlement in which the compensation is made in the form of stock issued to the voting trust. It apparently will not object if Waugh's interest is in the form of a debt and it does not seem to care how the debt is secured. The problem with this position is that it puts the company in a difficult position to raise capital and proceed to become a successful business.

Mr. Austin views the settlement as that of a consulting agreement only and not of a resolution of the original agreement between himself and Mr. Waugh to issue stock to the voting trust. Mr. Austin has suggested that Mr. Waugh's compensation should be set forth in a contract which would provide that Waugh would receive the equivalent value of stock when certain events occur. Waugh's interest would not be secured and he would, in effect, be an unsecured creditor of the company. In addition, there is no provision which would prevent the value of Mr. Waugh's interest from being diluted by the issuance of additional stock.

Waugh would prefer to receive his interest in the form that was originally agreed to and which was the result of consultation with reputable communications counsel as to its propriety; stock to the voting trust. However, that has been ruled out by the Bureau. In lieu of that, Waugh would agree to forego any present interest in the company. His compensation would instead be in the form of a future interest which would be described in an executory contract (similar to what Austin has proposed). This future interest would either be stock (preferable from the company's standpoint because it is not a debt and the necessity of determining an equivalent value is obviated) or, if necessary, the equivalent value of the stock. The future interest would become effective upon the occurrence of certain events outside of Mr. Waugh's control such as the issuance of stock, the sale of the company's stock or assets, the liquidation of the company, or the passage of a specific amount of time. The future interest could be enforced through specific performance.

If this outline is generally acceptable to the parties, we will endeavor to provide a draft executory agreement to the parties forthwith.



June 15, 2009

Mr. Pendleton C. Waugh
P.O. Box 4355
Scottsdale, AZ 85261

Mr. William D. Silva
5335 Wisconsin Avenue, N.W.
Washington, D.C. 20015-2003

Dear Messrs. Waugh and Silva:

This letter is in furtherance to our efforts to *expeditiously* resolve the ongoing contract dispute between Mr. Pendleton Waugh ("Waugh") and Preferred Communication Systems, Inc. ("Preferred"). In particular we are responding to a memorandum ("Memo"), dated June 5th, prepared by Mr. Silva. Additionally, we have further comments regarding certain items that were part of our conference call discussion on June 9th with Mr. Silva (Mr. Waugh did not participate in the call).

While we are encouraged by certain aspects on the Memo, we are disappointed with the lack of detail and clarity of your position. This ambiguity is obvious in your describing Waugh's "future interest" as being either stock, or not stock.

Unfortunately, your responses and interaction with us, to date, do not provide us with sufficient confidence that your drafting of an agreement is the best next step. We are concerned that it will be an elongated process for which there is currently no basis to expect that it will generate a workable document. Our concerns were somewhat confirmed during our conference call (June 9th) with Mr. Silva, who indicated that the document drafting process would begin, at the earliest, on June 16th. Furthermore, it is arguably premature to be drafting a document before there is anything close to an "agreement-in-principle" in place.

Accordingly, we believe the best next step is to pursue an *agreement-in-principle*. To that end, we have attached a "Letter-of-Intent" ("L.O.I.") as the suggested mechanism by which we can document an "agreement-in-principle," assuming one can be reached.

In order to avoid any misunderstanding as to our position, we feel it is necessary and relevant to reiterate certain points, which are presented below. Additionally, we see certain factual errors and distortions in the "Memo" as requiring commentary from us; our comments are included below.

P.O. Box 153164 Irving, TX 75015-3164

COMMENTS RE “MEMO” – FACTUAL ERRORS & DISTORTIONS

The “Memo” states -- *“The Bureau is not concerned with the amount of compensation...”*

We believe this statement is a distortion of the Bureau’s true position. Our understanding is that it is not a matter of “being concerned or not concerned,” instead it is a matter of whether or not the “amount” of compensation is within their purview, which it is not. However, the Bureau will become concerned regarding the “amount” of compensation if a party somehow uses the EB proceeding as leverage to attain something they would not otherwise be entitled.

The “Memo” states -- *“ Mr. Austin views the settlement as that of a consulting agreement only and not of a resolution of the original agreement...”*

This statement is in error. It is abundantly clear in Preferred’s written offer (including written clarification) to Mr. Waugh, that it proposes a settlement of all matters.

The “Memo” states, regarding Mr. Waugh receiving stock in a trust -- *“ ... (this) has been ruled out by the Bureau.”*

We believe this statement is a distortion of the situation. The context of the Memo suggests that the Bureau is dictating to Preferred as to how it does (or does not) compensate Mr. Waugh. This is not the case. Preferred has made a business decision (separate from anything from the FCC) that it, as a Company, has decided not to ever issue stock to Mr. Waugh or any so-called trust. This is a prudent decision, which the Company will defend if and when needed.

HISTORICAL FRAMING

Preferred sees this as a business dispute between two parties, nothing more, nothing less. There can be no question that the “dispute” between Waugh and Preferred is a “contractual” matter. It is a private business matter between two parties who can’t agree on the payment of consideration for consulting fees.

This “dispute” has been ongoing for years without resolution; with its origins dating back over ten years. It has evolved to a point where the only thing in common between the parties is that each has declared the other to be in “breach” of the agreement.

The matter of the amount and form of further compensation, if any, to Mr. Waugh for services rendered as a consultant is an exceedingly contentious matter. Mr. Waugh summarized his current relationship with Preferred quite clearly in his deposition, dated January 26, 2009, in the FCC Enforcement Bureau (EB) action against Preferred, et al. In his deposition, Mr. Waugh described the “possibility of litigation” (with Preferred) regarding his compensation as “...a highly likely probability of litigation.” and further stated that litigation was a “virtual certainty.”

As a consultant, Mr. Waugh's compensation was premised on a value-added basis. Mr. Waugh represented himself as an *expert* in matters related to the wireless telecommunications business, FCC regulations, FCC licensing, etc. Furthermore, he persuaded the Company that, with his involvement and by following his "expert" advice, the Company would realize enhanced value of such a magnitude as to justify his receiving a substantial stock position. Unfortunately, reality was quite the opposite. The bottom line is Mr. Waugh's involvement and advice has been exceedingly costly to the Company.

A resolution of the contractual dispute between Waugh and Preferred has become a contentious matter not only between Waugh and Preferred, but also (on Preferred's side of the table) among those who have a vested interest in Preferred. There are those who state that, all things considered, Waugh should receive little or nothing, and any further compensation must not be in the form of equity ownership in Preferred.

Additionally, there are those who believe that Preferred has a cause of action against Mr. Waugh related to the EB action, which has frozen all operational progress of the Company for nearly two years. Many believe that the EB's issues with Preferred would not exist had it not been for Mr. Waugh's failure to take care of his own personal matters. Consequently, Mr. Waugh's negligence has cost the Company, two years of legal fees, along with the opportunity costs of two years of stifled operations.

ENTITLEMENT TO SPECIFIC AMOUNT OF COMPENSATION

During our conference call (June 9th) we got the impression that Mr. Waugh believes that the "amount" of his further compensation is somewhat "carved-in-stone." It seems that Mr. Waugh believes he is *entitled* to the 2.2 million shares (stock or its equivalency) and cash, and is going to receive that amount, or close to it, in a settlement with Preferred. "If" Mr. Waugh has these thoughts, he is sorely mistaken. As noted above, the Company challenges the "quality" of Mr. Waugh's services as not being "as advertised," thus, his receiving anything close to his full claim is simply not going to happen.

As a small start-up, Preferred does not have the luxury of in-house redundancy in its pursuit of its business objectives. It, as is often the case with small companies, relies on outside experts until such time as it is prudent to fully develop its in-house organizational structure. Preferred relied on Mr. Waugh to provide input to the Company, and deliver on his representations as being an "expert" in various matters. Unfortunately, the Company's reliance on Mr. Waugh was (in hindsight) ill-advised; consequently, the expected positive impact to Company never materialized. To the contrary, Mr. Waugh's overall involvement has had a negative impact.

It is ridiculous to expect a company to pay for something it didn't receive. Mr. Waugh promised many things, but in the end, delivered very little. The Company has specific problems with Mr. Waugh's "consulting services." These include, but are not limited to, his advice, data and strategy regarding: (1) FCC Auction #34, in which the Company expended over \$31 million to acquire certain licensing rights, (2) financial forecasts and business models, and (3) the FCC 800Mhz "Rebanding Proceeding" – WT 02-55.

Absent a settlement of this matter, Preferred is prepared to hold to its contention that Mr. Waugh is not entitled to any further compensation and furthermore, may be liable for damages caused to the Company. Mr. Waugh has threatened to litigate this matter. The Company is ready, willing and able to not only defend itself against any and all claims by Mr. Waugh; but will also pursue its own claims and/or counterclaims against Mr. Waugh.

PREFERRED'S SETTLEMENT EFFORTS

Preferred's pursuits and actions will be based on what is in the best interest of the Company as a whole. As with all companies, each decision Preferred makes will not necessarily be embraced by all who have a vested interest. However, well-reasoned, prudent actions that further the collective interests of a company will always prevail as the proper course of action.

The above commentary notwithstanding, we believe it is beneficial to resolve our differences sooner as opposed to late. Unfortunately, even though this is a private business matter, the ongoing EB action against Preferred and Mr. Waugh causes a settlement with us to be relevant to that proceeding. Accordingly, any settlement between us will be contingent upon a global settlement with the FCC.

Preferred, in making its previously stated offer to Mr. Waugh, believes it was exceedingly generous regarding the amount being offered. Recognizing, of course, that each and every dollar that is ultimately paid to Mr. Waugh is a dollar that will not be paid to the "investors," who have provided over \$40 million in capital to Preferred.

The offer of the equivalency of 800,000 shares has the *potential* of being worth millions of dollars. As such, it is a generous offer in light of the above comments regarding the value of Mr. Waugh's consulting services to Preferred. The primary reason for making such an offer at this time is that it is part of a puzzle that provides a high level of certainty in achieving a "*global settlement*" of the EB action. The benefits (to Preferred) of an expeditious, *global* settlement are of a magnitude that justifies the amount of further compensation to Mr. Waugh, which some may consider as an overpayment.

There is a delicate balance for the Company as to what is prudent. There are many variables in play, one of the more significant is time. Certain windows of opportunity for Preferred are closing. The Company's efforts have been stifled in the past due to the FCC's Rebanding Proceeding and by the EB actions. If it does not begin to move forward immediately, it likely never will.

The element of time has an impact on the Company's decision matrix. Over three months has passed since the possibility of a settlement with the EB was envisioned by all parties. Yet, the matter of the contract dispute between Waugh and Preferred continues unresolved.

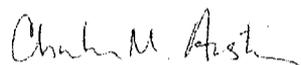
If we are going to hit an impasse, the sooner we know, the better we can deal with it. Failure to reach a settlement with Mr. Waugh regarding his compensation does not preclude us from

reaching a separate settlement in the EB action. If we take this path, any and all offers of a financial settlement with Mr. Waugh will be fully rescinded and the Company will thereafter take the position that Mr. Waugh is entitled to nothing. Thus, Mr. Waugh's only recourse will be to prevail in a civil case against Preferred, whereby he will need to prove to a court that he is entitled to something. Preferred will vigorously defend against any such action.

Time is of the essence. Please communicate to us as soon as possible with any substantive comments you may have regarding this letter, and/or the attached LOI. All things considered, we assume it will be a matter of very few days before you will respond.

Nothing in this letter should be construed as Preferred waiving any rights or claims it may have if the subject matter is not settled. This includes Preferred's claim (and/or defense against Waugh's claims) that no compensation (monies or stock) is due to Waugh or his so-called Trust.

Sincerely,

A handwritten signature in cursive script that reads "Charles M. Austin".

Charles M. Austin
President

Letter of Intent

This letter of intent ("LOI") reflects our understanding, at the present time, of certain preliminary discussions we have had regarding a resolution of a dispute between Pendleton C. Waugh ("Waugh") and Preferred Communication Systems, Inc. ("Preferred" or "Company") regarding the payment of further compensation to Waugh for consulting services rendered to Preferred and is intended to be an outline to assist in the preparation of a definitive "Final Agreement."

This LOI is not intended to contractually bind either of us in any way, nor shall we be legally bound until a final agreement in form and content satisfactory to each of us is fully executed by us. Neither party is entitled to rely on this LOI nor any promises (whether oral or written) that may be made in the future, in connection with the negotiations pertaining to a resolution of the dispute between Waugh and Preferred, except as may be contained in a fully executed final agreement.

The contemplated "Final Agreement" will provide the same economic benefit, but as a contract, not as stock or warrants. The Final Agreement will contain language and a formula that is clear and mutually agreeable as to the calculation of monies due to Waugh.

In order to quantify the amount of compensation due, it must be "calculated" using some form of "basis." That "basis" will be shares of stock, more accurately described as "*common stock equivalents*." Waugh's compensation for past consulting work will be equal to the amount of monies that would be paid to him "as if" he were an actual shareholder of **eight hundred thousand (800,000) shares** of common stock.

The following is an example of how the concept would be applied. The example data is not intended to have any relevance to the disputed matter, instead they are random numbers selected for their digestibility in the example.

	Reference	Formula	Data
Total Common Shares Outstanding	(a)		9,000
Waugh "Share Equivalents"	(b)		1,000
Total "Common Stock Equivalents"	(c)	= (a) + (b)	10,000
Total \$ - Available to Shareholders	(d)		\$100,000
Distributable \$ Per Share - Based On "Common Stock Equivalents" Calculation	(e)	= (d) / (c)	\$10
Final \$ - to Shareholders	(f)	= (a) x (e)	\$90,000
Final \$ - to Waugh	(g)	= (b) x (e)	\$10,000

As can be seen in the table above, application of the concept is simple and direct. In the example, the Company has \$100,000 to distribute to its common shareholders. It has 9,000 shares

outstanding and has the contractual obligation (by virtue of a "Final Agreement") to pay Waugh the "equivalency" of 1,000 shares. In this example, the day that \$90,000 in total checks are available to the "shareholders," likewise, a check for \$10,000 will be available for Waugh.

In summarizing the Company's obligation to make a payment to Waugh, it will coincide with the Company making a cash payment to its common stockholders; ***such an event will trigger its obligation*** to pay Waugh, in an amount and on a date as described above.

Examples of a "**triggering event**" include, but are not limited to: (1) the payment of dividends, (2) a payment from liquidation (i.e. a return of equity) or (3) a sale of the Company in a transaction commonly referred to as a "stock sale" (in contrast to an "asset sale," which is covered by #1 and #2). If the Company is sold in a "stock sale" that is structured as "cash-for-stock," Waugh will be paid in the form of cash using the contract formula. If, however, the Company is sold in a "stock sale" that is structured as "stock-for-stock," Waugh's compensation will be paid in the form of "stock" of the acquiring company in a pro-rata amount, determined by to the contract formula.

There will not be any "security" of any kind. Even though Waugh will have a valid, fully enforceable contract (Final Agreement) with Preferred, it will be distinguishable from any other contract or debt obligation of the Company. The distinction is that all other creditors hold a position that is superior to the common shareholders; furthermore, they are owed specific amounts pursuant to whatever terms and conditions govern the obligation. In contrast, Waugh is monetarily owned nothing until an "event" triggers the obligation.

Notwithstanding the above, Waugh's position vis-à-vis creditors *and* his overall legal rights and remedies will change upon the occurrence of an "event that triggers an obligation" to him. As discussed above, a "**triggering event**" creates an absolute liability to Waugh since it completes the necessary elements that result in a liability to Waugh. This includes the determination of the "to-be-determined" components as to amount and date. A "triggering event" will place Waugh in a position on par with Preferred's unsecured creditors, until the amounts due are paid.

Any amounts due, will only be due and payable, if and when funds are paid to the actual shareholders. The Final Agreement and/or any rights thereunder cannot be sold, assigned, transferred, pledged, etc.

The aforementioned stock equivalency compensation will be the only further compensation to Waugh. There will be no cash payments for any claimed "accrued" compensation or unreimbursed expenses.

Preferred and Waugh will execute mutual releases regarding any and all claims one has against the other.

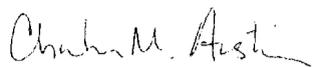
The definitive "Final Agreement" will contain the typical and traditional terms and conditions that are generally incorporated into such an agreement.

Any settlement between us will be contingent upon obtaining any and all approvals that may be required from the FCC as to its form and substance.

Any settlement between us will be contingent upon a "global settlement" with the FCC in the EB proceeding.

It is expressly agreed that if a mutually agreeable final agreement is not agreed to and executed by both parties on or before (date), neither party shall any further obligation to continue negotiating with the other.

This Letter of Intent is executed as follows:



Preferred Communication Systems, Inc.

By: Charles M. Austin

President

Pendleton C. Waugh

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July 8, 2009

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Re: EB Docket No. 07-147

Lady and Gentlemen:

I am writing on behalf of Pendleton C. Waugh ("Waugh") in connection with ongoing settlement discussions in the above-referenced matter. During a conference call on June 30, it appeared to me that the status of settlement discussions were as follows:

1. In his capacity as sole Director and Chief Executive Officer and President of Preferred Communications Systems, Inc. ("Preferred"), Charles M. Austin had presented Mr. Waugh with a Letter of Intent in which Waugh was offered, *inter alia*, common stock equivalents in Preferred equal to 800,000 shares of stock.
2. Waugh had undertaken to draft an Executory Agreement which would define Mr. Waugh's future interest in PCSI since the Enforcement Bureau ("EB") would not enter into a settlement agreement if Waugh held an equity position in the company.
3. Waugh and the EB had still to negotiate the so-called holding period (the period during which Waugh could not hold an attributable interest in any entity which was a Commission licensee).
4. The EB's last position was that the holding period should be ten years, but it appeared that there was

some flexibility on the amount of time. Waugh and Austin agreed to report back to the Bureau by next Wednesday, July 8, as to what progress, if any, had been made. This letter is in response to that commitment.

Before setting forth Mr. Waugh's current position on settlement, it should be understood that from Mr. Waugh's perspective, he did nothing wrong, but is being cast as the culpable party in these settlement discussions. The Raymond Hebrank Voting Trust was designed upon the advice of reputable communications counsel and is a fairly common way to provide a person with a beneficial interest in a Commission licensee without conferring on him an attributable interest. Moreover, as discovery in the proceeding has made abundantly clear, Mr. Waugh was never a Director, Officer or control person of Preferred, nor did Preferred ever transfer control of any of its licenses to him as alleged in the Enforcement Bureau's Hearing Designation Order. Moreover, since Mr. Waugh never held an attributable interest in Preferred or Preferred Acquisitions, Inc. ("PAI"), neither Mr. Charles M. Austin and/or Mr. Jay R. Bishop nor Preferred and/or PAI could have violated the Commission's rules by failing to disclose Mr. Waugh's participation as a consultant and economic beneficiary of the Raymond Hebrank Voting Trust.

Based upon the above now undisputed facts, Mr. Waugh does not believe he legally can be precluded from what was promised, a beneficial interest in Preferred for assisting it in acquiring almost \$554 million in 800 MHz Specialized Mobile Radio ("SMR") General Category ("GX") Economic Area ("EA") market authorizations¹ for the company. Given the passage of more than ten years from Mr. Waugh's state conviction, he further believes that under applicable FCC precedent he now has rehabilitated his character qualifications and is entitled to hold an attributable interest in any Commission licensee or FCC licenses in his own name.

Starting from this premise, Mr. Waugh will agree to a global settlement under the following terms:

Vis-a-vis Preferred:

1. Validly elected Directors and a validly appointed Chief Executive Officer and President² approve the issuance of 1,600,000 shares of Class A Common Stock in Preferred to the Raymond Hebrank Voting Trust; Mr. Waugh would agree to seek to extend the Voting Trust for an additional five years although he is not obligated to do so;
2. Issuance of a Promissory Note to by Preferred to Waugh in the amount of approximately \$281,000 to be paid in three annual installments with the first installment due in sixty days, the second installment due on January 1, 2010, and the third installment due on January 1, 2011. If Preferred should default on the first payment, then Waugh would be issued 281,000 Class A Common Stock Purchase Warrants (5 year exercise period and \$1.00 per share exercise price); and
3. Issuance of 500,000 Class B Common Stock Purchase Warrants (less the number he sold in 2006-

¹ This figure assumes a valuation of \$4.00 per MHz/Pop and FCC treatment of PAI's 800 MHz SMR GX EA market authorizations identical to that it afforded Nextel Communications, Inc.'s 800 MHz SMR GX EA market authorizations.

² Such Directors would be elected at a shareholders meeting to be ordered by the Delaware Chancery Court pursuant to a complaint filed on July 7, 2009 by Mr. Walsh and Ms. Salomone on behalf of Michael Judy, a Preferred shareholder and President of Preferred Spectrum Investments, LLC, a group of Preferred shareholders. Since Mr. Bishop would not be issued any shares of Preferred's Class A Common Stock, such issuance of 1,600,000 shares of Class A Common Stock to the Raymond Hebrank Voting Trust would not result in either a de jure or de facto transfer of control requiring prior Commission review and approval.

2007) to third parties (5-year exercise period and \$1.00 per share exercise price).

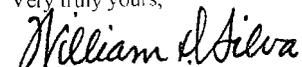
Vis-a-vis EB and other FCC Bureaus:

1. Imposition of no restrictions on Mr. Waugh's activities going forward;
2. Adoption of Preferred's Alternative Banding Proposal by the Wireless Telecommunications Bureau ("WTB") for Puerto Rico, the U.S. Virgin Islands, and nine U.S. EA markets in which Preferred Acquisitions, Inc. ("PAI") holds EA authorizations;
3. Release of the waiver granted in December 2005 pursuant to which PCSI would have an additional 18 months to construct its EA authorizations to satisfy the FCC's "substantial service" requirements; and
4. Withdrawal of procedural objections by the WTB to consideration of PCSI's, James A Kay's, and Mobile Relay Associates' petition for review of the FCC's 800 MHz Rebanding Orders.

Mr. Waugh initially sought to satisfy Mr. Austin and the EB by accepting something different from what he was promised. Although he retained counsel with expertise in the area of future interests, a satisfactory vehicle could not be crafted that he believed would protect not only his interests but that of the overwhelming majority of Preferred's investors who desire for the Company to construct and operate major wireless communications systems. The additional requirements relating to the Alternative Banding Proposal, the release of the waiver, and the withdrawal of objections in the review of the 800 MHz Rebanding Order are designed to insure that PCSI will be able to succeed in building and operating wireless systems in the future.

We trust that this letter clarifies Waugh's position and believe that a settlement based upon the now undisputed facts can be achieved along the lines outlined above.

Very truly yours,


William D. Silva

CERTIFICATE OF SERVICE

I, William D. Silva, certify that I have caused a copy of the foregoing "Settlement Fact Statement" to be sent by electronic mail, this 28th day of August, 2009, to the following:

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Chief Administrative Law Judge
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