

belief, claim that the Plaintiff knowingly made false and misleading statements/claims in his Complaint in an effort to manipulate this Court.

(9) The veracity (as it relates to the Plaintiff himself) of the Plaintiff's claims regarding the Company's proposed settlement with the FCC remains, most certainly, as an issue. In particular, the "source" and foundation of the Plaintiff's claims is a key issue. It remains as an issue regarding the Defendants' counterclaims of conspiracy, fraud and tortious interference. However, any conjecture or supposition regarding what is, or is not, included in any "proposed settlement" is moot, since the FCC and the Company have now executed a settlement agreement that has been approved by the judge in the FCC Proceeding.

(10) On August 6, 2009, subsequent to the Plaintiff's Complaint(s) being filed, the Administrative Law Judge ("ALJ") in the FCC Proceeding issued his Order approving the Settlement Agreement ("Agreement") between PCSI and the FCC. Contrary to the "Chicken-Little like," false and misleading claims of the Plaintiff, the Company is not selling its licenses, nor has it dropped its Appeals case. Furthermore, there is nothing self-serving regarding Mr. Austin, as was further falsely claimed by the Plaintiff.

(11) The terms and conditions of the "Agreement" are objectively, and by any measure applied, highly favorable to the Company and clearly in the best interest of the Company and all of its investors. From an investors perspective there are no settlement

terms that could be construed as objectionable; it is a very positive resolution for the Company. The settlement is such that there is no finding of any wrongdoing and certain impediments affecting the Company's FCC licenses have been lifted. Subsequent to its public release, the Defendants have disclosed, provided copies and discussed the terms of the "Agreement" with individual investors (or their legal representatives) representing over ninety percent (over 90%) of the total invested capital in the Company. Each and everyone contacted, in effect one hundred per cent (100%) of them, was in full support of the Agreement and were generally exceedingly pleased with the outcome and offered "congratulations and appreciation" on the effort and the result.

GENERAL DENIAL and DEFENSE(S)

(12) The Plaintiff's Complaint(s) are focused on the *FCC Proceeding* and any related settlement. In particular, the Complaint(s) focused on what might be included in said settlement. Since a settlement has been reached, which is devoid of any of the items that were of concern to the Plaintiff, all such concerns (real or fabricated) are rendered moot.

(13) The Plaintiff's Complaint(s) are focused on the *FCC Proceeding* and any related settlement. In particular, the Complaint(s) focused on the authority of Mr. Austin to represent the Company in that matter. The Complaint(s) only challenge the composition of the Board, not Austin's position as "President," which is the authority by

which he currently represents to Company. Under the By Laws of Preferred and its Certificate of Incorporation, Austin is the duly elected President, which is unassailable.

(14) **Austin's Authority in general and in the FCC Proceeding is unassailable.** Nearly two years ago, Preferred was required to file a "Notice of Appearance" in that proceeding. On August 17, 2007, Preferred filed their Notice of Appearance, which was executed by Austin as "**President.**" Nothing has occurred to change this. To the contrary, an Order in the FCC Proceeding has recently affirmed Austin as proper representative for Preferred. In an Order issued on July 16, 2009, denying another group of investors the right be interveners, this Order stated that – "*Interests of PCSI (Preferred) shareholders are being represented by corporate parties and by a corporate officer.*" Additionally, the FCC Enforcement Bureau ("FCC EB") after more than two years of investigation (including all forms of discovery, document production, interrogatories and depositions) and months of settlement discussions, continues to recognize Austin's Authority (see "FCC's Opposition to Motion" in this proceeding, filed July 23, 2009).

(15) Due to extraordinary circumstances beyond the Company's control, it is impractical and not in the Company's best interests to expand the number of members elected to its Board at this time. Furthermore, if forced to do so (by virtue of an order of this Court) there would be no fundamental impact or practical change since the Company's current sole-director personally holds a supermajority (over 75%) of the

Company's voting stock, thus any "expanded" Board will continue with the Company's current philosophy.

(16) The Company has previously made an effort to recruit "qualified" individuals to serve on its Board, but was unsuccessful. There were simply too many problems and significant uncertainties facing the Company for it to be able to attract quality candidates. The matter of mutually agreeable compensation was also an issue. The Company's status is "pre-operational," thus it has no revenues. Furthermore, as a result of the uncertainties created by the FCC Proceeding, capital funding from its historical resources has been minimal. Consequently, any outlay of funds for an "expanded" Board would be an added financial burden. Particularly when the "expanded" Board would (as noted above) have no impact on the composition of the Company's executive officers and overall business philosophy.

SPECIFIC ANSWERS TO PLAINTIFF'S ALLEGATIONS

(17) Regarding Plaintiff's "Allegation" in paragraph # 1 of the Complaint, the Defendant contests the allegation that the Company has never held an annual meeting and that "urgent matters now make it appropriate and necessary that the Company be forced (by this Court) to convene a meeting."

(18) Regarding Plaintiff's "Allegations" in paragraph # 2 to # 3 of the Complaint, the Defendant does not contest the Plaintiff's general description of the "Parties."

(19) Regarding Plaintiff's "Allegations" in paragraph # 4 - # 6 of the Complaint, the Defendant does not contest the Plaintiff's general description included as "Background."

(20) Regarding Plaintiff's "Allegation" in paragraph # 7 of the Complaint, the Defendant denies the allegation that the FCC Proceeding included issues regarding ownership interests such that an outcome would (or could) "affect Austin's purported control over the Company." The bottom line is that Austin's stock ownership and/or his control of the Company were never an issue (or at risk) in the FCC Proceeding. Accordingly, the Plaintiff is making false and misleading statements.

(21) Regarding Plaintiff's "Allegation" in paragraph # 7 of the Complaint, the Defendants denies the allegation that it did not respond to inquiries by its stockholders regarding developments in the FCC Proceeding. However, the Defendant points out that it was limited as to certain details that it could disclose during the proceeding. These limitations were based on advice from the Company's attorneys and from directives from the attorneys for the FCC.

(22) Regarding Plaintiff's "Allegations" in paragraph # 8 and 9 of the Complaint, the Defendant denies and/or contests the allegations that it: (a) failed to regularly provide stockholders with information, (b) never held an annual meeting of stockholders, preventing stockholders from obtaining information, and/or (c) refused previous reasonable informal requests for information regarding the performance of the Company and its business.

(23) Regarding Plaintiff's "Allegation" in paragraph # 10 of the Complaint, the Defendant denies and/or contests the allegation that the "Plaintiff wishes to protect the Company, its assets and all of its stockholders."

SPECIAL CIRCUMSTANCES/ DEFENSES RE: DEFENDANTS

(24) A full discussion of the Companies history and its relationship with its investors is beyond the scope of this filing; however, a brief summation is applicable due the criticisms (regarding a lack of information and conducting formal shareholder meetings) included in the Plaintiff's "Complaints." As the Plaintiff himself describes in paragraph #4 of the Complaint – "**Preferred is in the early stages of development to become a full service wireless telecommunications provider....**". Certain events beyond the Company's control have stalled its efforts to construct and operate wireless phone systems on its FCC licensed frequencies.

(25) In its early days, many years ago, the Company focused on developing a mobile phone system in Puerto Rico. It first acquired site licenses, then it participated in FCC Auction #34 in which it bid and paid approximately \$32 million for geographic Economic Area ("EA") licenses in Puerto Rico and in certain other markets in the U.S. In addition to Puerto Rico, the company acquired licenses in nine markets, in two clusters (central and northern California cluster and the Washington DC/Virginia cluster).

(26) Within months of the Company's acquisition of its EA licenses, it was hit with its first "stifling event." This was the FCC's nationwide "800 MHz Rebanding Proceeding" (WT 02-55), which caused the Company to be effectively precluded from developing (i.e. constructing and launching commercial operations) its licenses, due to the uncertainties as to its "new" frequency assignments. Specifically, the FCC's "rebanding proceeding" has generated a series of new rules and orders, which mandate the relocation of all licensees (including those of the Company) in the 800 MHz band pursuant to a "Rebanding Plan" adopted by the FCC in 2004. The "Rebanding Plan" was to have been completed in June 2008; the FCC has extended it into 2010. To date, the Company has not received its new channel (frequency) assignments from the FCC. Preferred (and several other companies) believe that its treatment in the FCC Orders in the "800 MHz Rebanding Proceeding" is inequitable, discriminatory, anti-competitive and not in accordance with the stated objectives of the Proceeding. Accordingly, Preferred (and several other companies) have filed appeals in the U.S Court of Appeals for the District of Columbia. These cases are still pending.

(27) A second, and more ominous, “stifling event” was the FCC’s EB Action (i.e. the “FCC Proceeding”) which began in July 2007. A possible end result of this proceeding could have been the revocation and/or cancellation of all of the Company’s FCC licenses. Such an outcome would effectively delete the Company from existence and totally wipeout over \$40 million of invested capital. Thus for the past two years, the Company has effectively been precluded from virtually doing anything, other than dealing with the FCC Proceeding. This proceeding added a second layer of suppression in the Company’s development effort since its timing overlaps with that of the FCC Rebanding Proceeding. In effect, just as the Company was beginning to emerge from the shadows of the FCC Rebanding Proceeding, the EB Action was commenced.

(28) As is quite common for a small company, Preferred has a single individual who was the “founder” of the company and who individually holds the vast majority of the stock. Prior to 2005, the Company had only a handful of common stock shareholders; thereafter the number of shareholders has increased by a limited number. **In total there are only twenty (20) shareholders who own “common stock,” which affords them general and traditional voting privileges.**

(29) The Company’s “founder” is an individual – Charles M. Austin (“Austin”). **Austin holds approximately of seventy-five percent (75%) of the voting stock of the Company.** Another individual holds approximately twenty percent (20%). Thus, two individuals hold approximately ninety-five (95%) of the Company’s voting

stock. In contrast, the Plaintiff only holds less than one percent (< 1%) of votes for common stock. Consequently, the Plaintiff (and all other minority shareholders) are well aware of their limited position with the Company; thus (by law), their involvement in the Company is, and should be, exceedingly limited.

(30) The Company contends that it has kept its shareholders informed by making all reasonable and appropriate disclosures. The limited number of shareholders, combined with its having no operations to report on, along with the stifling events discussed above, has enabled the Company to provide all necessary information to shareholders using a combination of formal and informal modes of communication. At times, the disclosures were necessarily limited due to the fact that the FCC Proceeding was a legal proceeding and the Company's attorneys and the FCC both advised the Company that it could not openly discuss the case. The Company maintains ongoing communications (generally on a weekly basis) with investors who collectively represent approximately **ninety percent (90%)** on the invested capital (debt and equity) in the Company.

(31) The Plaintiff's focus is the composition of the Company's Board of Directors ("BoD") in his Complaint. The Plaintiff contends that the BoD must have at least four (4) members, one of which is to be elected solely by the "Series A – Preferred Stockholders," and that the Company refuses to address this matter. He paints a distorted picture of this issue by failing to present all the facts. First, prior to 2007, the Company's

By Laws and Certificate of Incorporation only required the BoD to have a single member. Thus prior to 2007, this is a non-issue. In 2007, the Certificate of Incorporation was amended to provide for a BoD to be comprised of from four (4) to nine (9) members. Also in 2007, prior to the Company's holding an annual meeting and conducting a BoD election, the FCC EB Action commenced. As noted above, this action effectively precluded the Company from conducting "business-as-usual." One consequence was that, despite trying, the Company could not find any "qualified" individuals willing to serve on the BoD. Accordingly, the Company has been forced to temporarily suspend its efforts to add members to the BoD until the Company's situation improves to the point where it can attract quality candidates to serve on its BoD. Thus, contrary to the Plaintiff's contentions that the Company "refuses" to do certain things, the Company has been precluded from certain actions due to circumstances beyond its control.

(32) **In summation, the Company, through no fault of its own, has been in a holding pattern unable to predict when it can begin to construct any commercial operating facilities. Consequently, there has been limited information to disseminate to its shareholders and creditors.**

PLAINTIFF'S "CLAIM FOR RELIEF" (para. 11 to 13 of the Complaint) IS MOOT

(33) The Plaintiff's Complaint(s) are focused on the FCC Proceeding and any related settlement. In particular, the Complaint focuses on the authority of Mr. Austin to represent the Company in that matter. As noted above, Austin's authority to represent the Company in unassailable and furthermore, that proceeding has been settled and all matters have been closed.

(34) **The Plaintiff does not challenge Mr. Austin as being: (a) President of Preferred, (b) a Director of Preferred, or (c) the single largest shareholder,** with a personal supermajority common stock position constituting **over 75% of the votes** on all corporate matters. The Plaintiff merely pursues the holding of an Annual Meeting of Shareholders at which the "**Common Stock**" shareholders will elect three (3) individuals to the Board of Directors by a **simple majority vote**. Additionally, the Plaintiff pursues the enforcement of the "single-issue" voting right afforded to a particular class of "Preferred Stock," specifically the "**Series A Preferred Stock.**" This class of stock does not have general voting privileges on corporate matters. However, they have a right to elect (as a single class vote) a single member to the Board of Directors.

(35) At this point irrefutable facts and simple mathematics are in focus. Even if the Plaintiff prevails on the "shareholder meeting" Complaint, result is clear and predictable and moot. The end result is that there will be no impact on Austin's

Authority (past, present or future). The most that can occur is that the Chancery Court will order the Company to conduct a shareholders meeting. At said Meeting of Shareholders, the "Common Stock" shareholders (of which there are a total of 20 individuals) will elect three (3) individuals to the Board of Directors by a simple majority vote; **Austin** (as the single largest shareholder with a personal supermajority common stock position constituting over 75% of the votes) will individually be able to cast the deciding vote for all three members of the board of directors. In essence, no other vote by any other individual (or group of individuals) is of any consequence. Obviously, Mr. Austin will elect individuals who support his position and efforts regarding the Company.

(36) Separately, the holders of "Series A Preferred Stock" could elect a single director, who would be the fourth member of the board. Thus, in the most extreme of predictable scenarios, a newly constituted board of directors will be at least 3 of 4 in support of Austin. Thus there will be no fundamental change from today's authority structure.

COMMENTS Re: RELIEF SOUGHT BY PLAINTIFF

(37) This Court cannot (or should not) grant any of the relief sought by the Plaintiff, since the only claims of the Plaintiff are ones which the Court cannot grant the requested relief. Any relief to the Plaintiff should be denied for all the reasons noted above, as summarized as follows:

(a) This Court cannot (or should not) eradicate the authority of the current Board or otherwise supplant its judgment as to whether or not it is practical or prudent for the Company to conduct an annual meeting of its stockholders in order to expand its Board at this time.

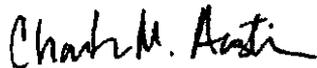
(b) This Court cannot (or should not) force the Company to expand its Board at this time, since it is impractical, financially burdensome and not in the best interest of the Company.

(c) This Court cannot (or should not) allow itself to, in any way, be supportive of parties who are participating in conspiracy, fraud and tortious interference.

Respectfully submitted,

**Preferred Communication
Systems, Inc.**

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



By: Charles M. Austin
Its President

PH # 214-548-3562

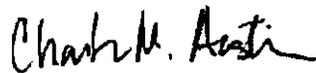
Date: August 12, 2009

**AFFIDAVIT OF
CHARLES M. AUSTIN
IN SUPPORT OF
ANSWER TO COMPLAINT**

I am over the age of eighteen years and fully capable of stating the following in support of the "*Answer to Complaint*."

Based on my personal knowledge, all statements and all facts included in the "*Answer to Complaint*" are true and correct to the best of my knowledge.

I declare under penalty of perjury that the foregoing is true and correct. Executed on August 13, 2009



Charles M. Austin