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From the Los Angeles Times

Airwave auction may miss targets

The loss of a key bidder may lower sale amounts and put an emergency network plan at risk.

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WASHINGTON — The shuttering of a high-profile wireless venture signaled that the federal government's spectrum auction could reap far less money than hoped for, analysts said Wednesday.

The government has two main reasons for selling the prime swath of wireless airwaves on Jan. 24 -- to make as much as \$20 billion for the U.S. Treasury and to create a nationwide network so that police and firefighters can communicate during disasters.

The viability of both goals is in doubt after Frontline Wireless folded this week.

The Greensboro, N.C.-based company, whose team includes former Federal Communications Commission Chairman Reed Hundt and high-tech pioneer Jim Barksdale, was viewed as the leading contender for the slice of the spectrum set aside for a new public safety network to be funded by commercial users that would share the airwaves.

Frontline was apparently unable to raise money to meet the minimum bid of \$1.3 billion.

The bulk of the airwaves, which are being given up by TV broadcasters converting to all-digital signals, is being auctioned off for commercial use. Giants including Verizon Communications Inc., AT&T Inc. and Google Inc. are expected to bid with the goal of offering high-speed Internet access and other wireless services.

But analysts said that if a company as well connected as Frontline couldn't pull together the money, other start-ups were unlikely to be able to compete with the big players.

Although the minimum bids for the 1,099 spectrum licenses total \$10.1 billion, competition from smaller players had been expected to elevate the prices.

"It may not be as successful as some industry people had expected," said Michael Weaver, managing director for corporate finance at Fitch Ratings.

Congress mandated that some of the spectrum be used for a public safety network after emergency personnel from different departments had problems communicating during the Sept. 11, 2001, terrorist attacks. The FCC crafted a plan to defray the cost of building such a network -- estimated at as much as \$10 billion -- by allowing the winning bidder to also offer commercial service, as long as first responders had priority during emergencies.

Frontline was created to try to win the spectrum and build the network. But Tuesday, four days after bidders had to submit deposits, the company said it was "closed for business at this time." The public safety portion of the spectrum required a \$128-million deposit.

FCC Chairman Kevin J. Martin said Wednesday that he hoped other bidders would fill the void left by Frontline.

"I'm still hopeful that there will be someone who will emerge as being willing to take on that challenge," Martin told reporters after a speech in New York.

If nobody meets the minimum bid, Martin said, the FCC could hold another auction with different rules.

FCC Commissioner Michael J. Copps said the panel might have to develop a new model.

"The really important thing for America is that we find some way to improve the tools available to our

nation's first responders," he said.

The FCC plans to auction the wireless airwaves in blocks covering large and small regions of the country.

Strict auction rules designed to prevent collusion prohibit the FCC from saying who submitted bids and participants from talking about the auction at all. Hundt, Frontline's vice chairman, declined to comment.

Blair Levin, an analyst at brokerage Stifel, Nicolaus & Co., said Frontline's problems showed it would be difficult for new players to raise money to bid against the major wireless companies, which already have cell towers and other costly infrastructure in place. That could drive down the auction's overall revenue and leave the public safety network without any bidders if the major companies decide that the FCC's plan is too complicated.

"The odds of it working the way the FCC wanted have certainly gone down, but that doesn't mean it doesn't work," Levin said.

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