

My name is Mark Pagon. I am the CEO and founder of Pegasus Communications Corporation, and of its subsidiary, Pegasus Rural Broadband, LLC. Pegasus Rural Broadband is a facilities-based provider of wireless high-speed Internet services to residential, small business and enterprise subscribers in underserved and rural communities. Pegasus Rural Broadband was approved in 2005 for a \$13 million loan under the Rural Development Broadband Loan and Loan Guarantee Program in support of our efforts to provide wireless high-speed Internet services to approximately 100 rural communities and 400,000 people in the state of Texas.

I have been an entrepreneur for substantially all of my professional life. My strategy has always been to focus on underserved and rural communities, to introduce attractive new services and to price them affordably. In the '80's and early '90's I started companies (Pegasus Cable Television and Pegasus Broadcast Television) providing cable TV and FOX TV in Mississippi, Tennessee, Florida, Alabama, Pennsylvania, Massachusetts, New Hampshire, Connecticut and the Commonwealth of Puerto Rico. In the '90's, I started a company, (Pegasus Satellite Television) introducing DIRECTV to rural areas in 42 states. Collectively, these companies grew to serve over 1.5 million customers; in almost all cases providing new services not previously available in the communities we served. While there are a variety of means to measure success in business, the measure that I believe takes precedence over all others is whether your company has made a difference to the communities its serves. My companies have always striven to meet that goal and I believe that we have.

Pegasus Rural Broadband was formed with a simple objective - to offer wireless high-speed Internet services to rural and underserved communities at an affordable price. We began commercial operation approximately two years ago, we are operational in 50 communities in west and central Texas and we currently serve approximately 2,500 subscribers. We offer connection speeds up to 1.5 MB/s and price our services at between \$30 and \$40 per month. While we have been authorized for a \$13 million loan from the RUS under the Rural Development Broadband Loan and Loan Guarantee Program, to date the capital required to build and operate our business has been wholly contributed by Pegasus Communications.

My experience as an entrepreneur building companies introducing new services to underserved and rural communities provides me a perspective on the challenges of providing broadband Internet access to rural communities and the importance of the Rural Development Broadband Loan and Loan Guarantee Program to meeting this important objective. My observations are, of course, limited by my own experience. They are specific. I hope you will find them pragmatic and useful.

High-Speed Internet Access is an Imperative:

Affordable high-speed, always-on Internet access is a necessary element of community health and development in the 21st century. Communities that lack such services will be severely at-risk.

Building a Financially Self-Sustaining High-Speed Access Service in Rural Communities is a Challenge:

Rural communities present two specific challenges to building a financially self-sustaining

high-speed Internet access service - small population and low home density. Small population makes it very difficult to generate the revenues necessary to cover the fixed costs attendant to providing such services. Low home density disadvantages any high-speed Internet access service whose capital investment is proportional to the geography covered, as the revenue potential per unit of capital investment shrinks as home density declines. This is a problem for both wireless and wireline services, but is especially problematic for wireline services. For this reason, I believe that wireless high-speed Internet services represent the most efficient and promising means for providing financially self-sustaining high-speed Internet services in rural communities.

#### Wireless Technologies Now Exist that Enable the Delivery of Commercially Viable High-Speed Internet Access Services:

Wireless technologies are now being introduced that allow for the delivery of commercially viable wireless high-speed Internet access services. These include both proprietary technologies (provided by companies like Alvarion and Motorola) and open-standard technologies (such as WiFi) using unlicensed spectrum, as well as so-called fourth generation (4G) technologies (such as WiMAX and Flash OFDM) designed for use in licensed frequency bands. As compared with wireline alternatives, these technologies are relatively inexpensive to build and are efficient for serving low density geographies.

#### The Rural Development Broadband Loan and Loan Guarantee Program is Enabling the Introduction of Wireless High-Speed Internet Access in Many Rural Communities:

Companies serving rural communities have traditionally had more limited access to the capital markets than those primarily serving larger metropolitan areas. This is, of course, also true for companies providing services based upon newly introduced technologies. As a result, wireless high-speed Internet access service providers have to date had great difficulty in securing the capital to launch wireless high-speed Internet services, especially in rural communities. The Rural Development Broadband Loan and Loan Guarantee Program is one of the few sources of long term capital available for such wireless high-speed access service providers. For Pegasus Rural Broadband, our loan authorization provides an essential supplement to our own investment capital and will enable us to expand our high-speed Internet access services throughout central and west Texas.

#### Our Experience in Applying for and Being Approved for Our Loan Authorization:

We filed our initial application for a loan authorization with the RUS under the Rural Development Broadband Loan and Loan Guarantee Program in February 2003. Our application outlined plans to serve approximately 100 eligible communities in Texas. Preparation of our application required substantial commitments of time from six members of our management and financial staff. It took approximately three months to complete. In March 2003, the RUS deemed our application incomplete and returned it to us. We submitted a revised application in April 2003. In June 2003, the RUS notified us that our revised application had been deemed complete. In June 2005, we executed definitive loan documentation for our \$13 million loan authorization. While we have not yet submitted an initial draw under this loan

authorization, we expect to do so within the next 90 days.

A Few Suggestions for Improving the Rural Broadband Loan and Loan Guarantee Program:

(1) The process of submitting our application, having our application deemed complete and negotiating and completing loan documentation was considerably more time-consuming than we initially expected. Much of our experience is attributable to the fact that we are a first time borrower from the RUS without prior familiarity with RUS processes or documentation. We believe that our experience will enable us to submit, complete and document future loan applications more quickly. However, we suggest that simplification of the loan application process by RUS would also be beneficial to expediting review of loan applications under this loan program.

(2) Currently, the Rural Development Broadband Loan Program prohibits loans to companies proposing services competitive to other applicants or RUS borrowers. The submission of an application for eligible communities blocks the ability of subsequent applicants to file for the same community until such time as the earliest application is deemed complete or is rejected. This imposes some hardship on applicants, as it is difficult to anticipate which communities will be the subject of alternative, competing applications, and when a competing application has been filed, how quickly RUS will make a decision to accept the competing application as complete or to reject it. We suggest that the Broadband Loan Program would be improved if applicants were allowed to submit applications for any eligible community at any time up to the point that RUS and a competing applicant enter into definitive loan authorization covering that community. This will enable applicants to file an application for eligible communities at any time and to have their application considered in the order in which applications were submitted to RUS.

(3) We believe that the goal of facilitating the introduction of high-speed Internet access to underserved and rural communities would be advanced if the definition of an eligible community were expanded to include communities with a population of 35,000 or less.

In summary, I believe that the Rural Development Broadband Loan and Loan Guarantee Program is a good program, as well as a necessary element to facilitating provision of high-speed Internet access services in underserved and rural communities. I also believe that certain, modest changes can be made in the existing program to ensure that its promise is fully realized.

Mr. Chairman, Ranking Member Harkin and Members of the Committee, I again thank you for the invitation to speak before the Committee today.