

# Consumer Alert

Federal Trade Commission ■ Federal Communications Commission



## FCC LICENSE AUCTIONS

If you're considering investing in a license for a wireless telecommunications service, be wary. The Federal Communications Commission (FCC), which grants licenses for radio frequencies to private and commercial parties in the United States, uses auctions to select among competing applications for certain licenses. Although auctions are a fair and efficient way to grant licenses, the Federal Trade Commission (FTC) has found that some individuals are promoting fraudulent investments in licenses auctioned by the FCC.

### THE SCAMS

In some license scams, potential investors are solicited to purchase an interest in a general partnership, limited liability partnership, or limited liability corporation that will participate in an upcoming FCC auction. Investors often are told that the federal government has set aside licenses for small businesses, that licensees will see quick and significant revenues from system operations, or that major telecommunications firms eventually will pay millions of dollars to buy the licenses from them. Typically, the promoters of these investments take most of the money for their own profits and expenses, leaving the investors with little capital to participate in the auctions and, if a license is acquired, an insufficient amount to launch a communications business.

In other scams, investors are encouraged to purchase licenses, through the promoter, from a private party who acquired them at auction. The auction prices of the licenses are not disclosed to investors, allowing the promoters of the investment to reap a huge profit on the resale of the licenses to the investor group. For example, a license won at auction for \$500,000

may be sold to a group of unwitting investors a few months later for \$5 million. Promoters also may sell partial interests in a license to increase their profits.

### WHAT YOU NEED TO KNOW

- 1 Ownership of an FCC license does not guarantee success in the marketplace.** An FCC auction represents an opportunity to become an FCC licensee. The FCC license is subject to certain conditions and regulations. An FCC auction is not an endorsement of any particular services, technologies or products. Indeed, the FCC neither approves individual investment proposals, nor makes any representations or warranties about the use of the wireless spectrum for certain services.
- 2 Homework counts.** Investigate the technology, the potential of licenses to produce revenues, and applicable FCC rules, as you would with any new business venture. Licenses issued by the FCC do not necessarily appreciate in value, and some communications ventures may not achieve profitability. Don't invest in any business opportunity unless you are aware of the risk. Keep in mind that the manner in which you invest could expose you to additional financial liability.
- 3 Don't make assumptions.** If the venture you're considering is supposed to participate in an upcoming FCC auction, be sure the auction has been scheduled by the FCC, that the service you're interested in is to be included in the auction, that the venture is registered with the FCC as a "qualified bidder" in the auction, and that the venture

has sufficient funds to pay for its licenses and the significant start-up costs of a new communications business. **Ask to see and review all applicable Public Notices and other public documents issued by the FCC regarding the particular auction you have been invited to participate in.** Many of these documents are available on the FCC website. Media reports on the market potential of the licenses to be auctioned also may be helpful.

**4** **The FCC has important information.** If the venture promises to acquire previously-auctioned licenses from a private party, contact the FCC for information regarding the history of the license. Find out who acquired the license at auction and the auction price. Get the names of all parties to whom the license has been transferred since the auction. Research whether any increase in the license price is justified.

**5** **Determine what percentage of your investment** will be retained by the investment promoters for their profits and expenses. It may be much higher than you would expect or find acceptable.

**6** **Check out sales claims.** Ask questions and take time to check out the answers before you commit funds to the venture or send any money. Consult with your family, investment advisor, attorney, friends with financial savvy, and with the sources listed below.

## RED FLAGS

Frauds involving FCC licenses often are very sophisticated and can be difficult for potential investors to detect. However, some business practices should raise red flags. Exercise extreme caution if you get:

- Offers to invest in general partnerships, limited liability partnerships, and limited liability corporations, with a minimum investment of less than \$25,000.

- Television and radio advertisements, or flyers sent by mail, urging you to “cash in” on FCC licenses or to buy an “on-ramp” to the information superhighway.
- “Cold” or unsolicited telephone calls from salespeople you don’t know who emphasize profit potential and say little or nothing about risk.
- Glossy, full-color brochures with fancy graphics, quotes from government officials and well-known private sector executives, and reprints of articles from national publications.
- Comparisons to profits earned by some investors in cellular or other FCC licenses.
- Pressure from salespeople to invest immediately and to send your investment via express courier or wire transfer.
- Claims that investments are “approved” for use in Individual Retirement Accounts (IRA). The government does not approve specific IRA investment programs.

For more information about FCC auctions, license status, or the rules governing licenses, call the **FCC National Call Center**, 1-888-CALL-FCC (225-5322), or visit the FCC’s Internet site at [www.fcc.gov](http://www.fcc.gov).

The **Federal Trade Commission** and the **Securities and Exchange Commission** take complaints about investment frauds and offer consumer information. Contact the FTC at 202-326-3128 or at [www.ftc.gov/bcp](http://www.ftc.gov/bcp). Contact the SEC at 202-942-7040 or at [www.sec.gov](http://www.sec.gov).

If you have a question or complaint about a specific investment offering, contact your state attorney general or state corporations office. □