



January 27, 2016

**VIA ECFS**

Ms. Marlene Dortch, Secretary  
 Federal Communications Commission  
 445 12th Street, S.W.  
 Washington, DC 20554

**Re: Telecommunications Relay Services and Speech-to-Speech Services for Individuals with Hearing and Speech Disabilities, CG Docket No. 03-123; CG Docket No. 10-51**

Dear Ms. Dortch:

Convo Communications, LLC (“Convo”) is filing this *ex parte* with the Federal Communications Commission (“Commission”) providing information requested from small providers regarding their 2015 operating costs. Specifically the Commission asked Convo to update its operational costs document presented to the Commission in May 2015.<sup>1</sup> Convo based the operating costs in its May 2015 presentation on its annual operational costs and data information provided to the TRS Fund Administrator adjusted by Convo’s actual operational costs for the first three months of 2015. Convo has attached an updated operational costs document which reflects its actual costs for 2015. In calculating its allowable costs in the updated operational costs document, Convo followed the instructions and worksheets provided to VRS providers by the TRS Fund Administrator to report their operational costs and data.

As is shown in the attached operational costs document, Convo began and ended 2015 with a per-minute VRS operating cost far higher than the applicable compensation rate. Due to its robust growth ahead of the projected 2015 VRS call volume handled and its diligence in reducing operating expenses, Convo ended 2015 at a total allowable cost of \$[REDACTED] per-minute, which is [REDACTED] higher than the new compensation rate in effect on January 1, 2016. However, when the allowable rate-of-return on capital investment is factored in, Convo’s total per-minute allowable cost at the end of 2015 is \$[REDACTED].<sup>2</sup>

Convo accomplished its rapid and substantial growth in 2015 highly efficiently. Despite the need to substantially invest in new infrastructure to support its robustly growing consumer base, Convo’s direct fixed VRS allowable operating expenses remained relatively stable in 2015 as compared to 2014. Convo implemented travel and meals cost saving measures and successfully cut those costs by [REDACTED]% in 2015 from a budgeted \$[REDACTED] per-minute to an actual cost of \$[REDACTED] per-minute. Convo’s 2015 Officers & Managers costs dropped from a budgeted cost of \$[REDACTED]

<sup>1</sup> *Convo ex parte*, CG Docket Nos. 10-51, 03-123 (May 2, 2015).

<sup>2</sup> See *Structure and Practice of the Video Relay Service Program*, Further Notice of Proposed Rulemaking, Section II, CG Docket Nos. 10-51, 03-123, FCC 15-143 (adopted Oct. 21, 2015).

per-minute to an actual cost of \$ [REDACTED] per-minute in 2015.<sup>3</sup> Convo’s 2015 administrative expenses budgeted at \$ [REDACTED] per-minute dropped to an actual cost of \$ [REDACTED] per-minute.

It would be expected that a small business such as Convo to be required to burn through capital in making substantial investments in its operations at its formative stage to maintain growth at such an accelerated pace. Doing so is often necessary as a small business expands its operations with the intention of recouping these high early expenditures through efficiencies realized later as the company’s scale and profitability increases. But this assumes that a company’s revenue per unit of output will remain roughly stable as the company grows and benefits from increased scale. Convo recognized that it could not solely rely on the standard business model of greater returns based on greater efficiency due to the automatic compensation rate reductions adopted by the Commission in its 2013 VRS Reform Order. Thus Convo has had to concurrently focus both on restraining and managing its costs and rapidly expanding its operations to achieve future scale.

Convo’s software videophone is commonly recognized in the VRS industry and by consumers as a leading mobile product because of its innovative features and functions. Nevertheless, towards the last third of 2015, Convo recognized that it could not well compete with the largest providers and grow to scale without the introduction of a hardware videophone. The majority of consumers insist on using hardware videophones when using VRS from fixed locations such as schools, workplaces and public places. Sorenson Communications created an entrenched user base at those fixed locations by distributing free videophone hardware to thousands of customers while locking them in with proxy telephone numbers, non-interoperability and non-portability in rapidly growing and achieving operational maturity during a period when VRS rates were much higher than today’s rate.

To compete with Sorenson at fixed locations, Convo developed a hardware videophone solution called Convo TV. Convo also integrated in its hardware videophone the first visual emergency and public notification system, called Convo Announce, to support the awareness and safety of its customers in deaf schools and workplaces. Convo also needed to significantly invest in outreach (labeled “[REDACTED]” in its operational costs document) to inform consumers about the new products, install the products and train them on its use. At the same time Convo worked to control its outreach costs, including the [REDACTED] in mid-2015.

As a result, Convo’s expenditures on research and development (R&D), outreach and consumer premises equipment (CPE) significantly increased than initially budgeted for 2015. Given the marginal compensation rate, Convo has had to [REDACTED] [REDACTED] to be able to make available its hardware videophones and the integrated notification system. Convo has carefully separately accounted the costs of developing and deploying its hardware videophones and notification system so that these costs are segregated from the allowable costs of providing VRS.

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<sup>3</sup> Convo provided the Commission with a detailed breakdown of the executive compensation portion of the Officers & Managers cost category in a confidential ex parte, CG Docket Nos. 10-51, 03-123 (December 23, 2015).

Convo’s expenditure of the excluded R&D, outreach and CPE costs was and continues to remain essential for it to capably compete in the VRS marketplace and to timely grow to scale. Convo’s expenditure of these excluded costs is also necessary because the new programs established in the Commission’s 2013 *VRS Reform Order* which were intended to reduce certain service costs for VRS providers have either not moved forward or are at their earliest stages. These new programs were intended to replace VRS providers’ costs of R&D, outreach, video communications service platform technology, achieve interoperability and increase portability. Thus, in the lack of these cost replacement programs, Convo has had to shoulder the costs of R&D, outreach and CPE to continue its growth so that it can subsequently survive and compete under a lower rate.

Convo is developing its projected 2016 VRS operational costs and data, due on February 20, 2016, as part of the annual reports from providers to the TRS Fund Administrator to help formulate the TRS compensation rates. At this preliminary stage, Convo’s projections for 2016 appear to differ from the projections made in its previous annual report in that:

1. [REDACTED];
2. [REDACTED];
3. [REDACTED]; and
4. [REDACTED].

Convo will readily provide the Commission with an update on its 2016 cost and demand projections being developed for the TRS Fund Administrator any time the Commission should request it.

We hope that the provided information is helpful. We will be readily available to provide the Commission with any requested financial information as part of Convo’s commitment to be fully transparent about its operational costs. A Tier I rate freeze is crucial in providing the small providers with “a reasonable window of opportunity to achieve the necessary scale and efficiencies to be able to continue providing service” thus Convo respectfully requests Commission action in granting such relief this month.

Respectfully submitted,

/s/

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cc: Gregory Hlibok, Chief  
Disability Rights Office

Attachment

[Redacted – 1 page of Highly Confidential Convo Operating Cost Data]