FCC Meetings

VRS Reimbursement
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Overview

Purple's proposal for VRS rates will save the TRS Fund more than $50 million annually while:

- protecting consumer choice,
- creating incentive for small providers to grow, and
- providing a long term framework for a vibrant industry that eliminates subsidies and pays all providers at the same rate.

Purple's Proposal

Expanded tiers with a transition to a single, unitary, rate.

- Interim, expanded tiers would have immediate savings effect
- Transition to unitary rate is triggered when largest provider has less than 50% market share

	Tier Minimum	Tier Maximum	Rate
Tier 1	-	1,000,000	$ 5.92
Tier 2	1,000,001	2,000,000	$ 4.94
Tier 3	2,000,001	unltd	$ 4.27

Comparison of Current Reimbursement Model to Purple's Proposal

FNPRM Example Using Current Model

	Minutes	Rate / Min	Total Paid by Tier
Tier 1	315,157	$ 6.24	$ 1,966,580
Tier 2	1,491,340	$ 6.23	$ 9,291,048
Tier 3	7,047,330	$ 5.07	$ 35,729,963
	8,853,827		$ 46,987,591
Blended Rate Per Minute			$ 5.31

FNPRM Example Using Purple Proposal

	Minutes	Rate / Min	Total Paid by Tier
Tier 1	2,505,151	$ 5.92	$ 14,826,734
Tier 2	1,000,000	$ 4.94	$ 4,940,000
Tier 3	5,348,676	$ 4.27	$ 22,838,848
	8,853,827		$ 42,605,582
Blended Rate Per Minute			$ 4.81

Analysis

Savings compared to Current Model	-9%
Monthly Savings	$ (4,382,009)
Annualized Savings using Purple Proposal	$ (52,584,107)

Competition and Scale Drive Lower Costs

- **As Purple has indicated, multiple providers operating at scale will result in lower operating costs for the industry as a whole.**
- **Sorenson's claims of "lowest cost" provider are unfounded.**
  - Sorenson points to it's current debt service requirements as a basis for a proposed rate floor of $5.14 per minute;
  - Purple, due in part to capital structure differences, would accept a significantly lower rate floor, even if handling significantly less market share levels than Sorenson
- **The FCC should not concern itself with Sorenson's rhetoric around potential bankruptcy, nor design a rate solution around Sorenson's capital structure requirements.**

Sorenson's Capital Structure

- **Sorenson Has Repeatedly Increased Debt to Pay Shareholder Dividends**

  In the history of the TRS program, until Sorenson, no provider had used debt to fund dividends for its shareholders. It is reported that Sorenson, through multiple offerings, has issued debt to pay roughly 800 million dollars in dividends to shareholders and management.

  > "If you add the USD 200m proposed dividend, that would bring the total the sponsor has taken out of this company to USD 800m, which is astounding." *Dec 10, 2009 – Debtwire analyst report*
  >
  > Goldman Sachs helped Sorenson raise more than 1.5 billion in debt. *May 4, 2010, Debtwire analyst report*
  >
  > "Privately held Sorenson is also a portfolio company of GTCR Golder Rauner LLC, whose returns from participating in telecommunications' VRS segment border on the preposterous. As peHUB put it in a blog posting in August 2009: 'GTCR appears to be killing it on the firm's investment in Sorenson Communications. The investment was written up 13,691%.' (GTCR did not respond to calls or e-mails regarding the return that peHUB attributes to Sorenson.) Whatever the precise amount, there's no getting around the fact that it represents a public-to-private transference of wealth. As such, it underscores the basic incompatibility between public trust and private equity: The FCC is charged with protecting the integrity of the Interstate TRS Fund; Sorenson is charged with repatriating as much of that fund as it can to its financial sponsor." A *failure of communication – The Deal Magazine, October 1, 2010.*

- **Sorenson uses that debt to justify artificially higher per-minute reimbursement rates for VRS minutes.**

- **Purple believes in the value and benefits of private capital investment in the TRS industries; however, Sorenson's private investment practices are detrimental to the fund and the public interest.**

Sorenson's Inconsistency

- May 4, 2010 – "Sorenson Communications attempted to calm investors with optimism on a Goldman-Sachs led call yesterday as market panic crushed the company's capital structure.." "..management said that rates would need to be set above USD 4.90 per minute through the three-year cycle in order for the company to service its debt and maintain EBITDA just above 140m.." Debtwire analyst report.

- March 9, 2012 – Sorenson claims it has taken significant measures to reduce operating costs in order to service its debt. *"Sorenson could not respond by refusing to pay all its taxes or the interest due on its loans. Sorenson was forced to terminate [employees]. Sorenson FNPRM Comments, page 34*

- *March 9, 2012 – "Simply put, if the Commission were to reduce the VRS compensation rate significantly below $5.14, or change to a per-user model with a rate significantly below the equivalent of $5.14 per minute, every existing VRS provider would either go out of business or go through bankruptcy, even if it could terminate a significant number of employees without destroying its labor-intensive business." Sorenson FNPRM Comments, page 36.*

- Summary of Inconsistency
  - In 2010 Sorenson suggests it needs $4.90 per minute to service its debt and remain profitable.
  - In 2012, Sorenson indicates it has taken significant cost reducing steps, but still claims it needs at least $5.14 per minute to avoid bankruptcy and total market failure.
  - These claims taken together, are inconsistent.

Sorenson's Threats of Bankruptcy

- **Bankruptcy Fact vs. Fiction – Not the FCC's Concern**

Sorenson has artfully used the fear of bankruptcy to persuade regulators, legislators and consumers to support the continual feeding of their debt payments.

> "Sorenson plans to use a three-pronged attack to encourage the Federal Communications Commission (FCC) to revise its proposed video relay service (VRS) reimbursement rates, the sources said. The company will employ a strategy successfully used in previous negotiations that involved meeting with the FCC directly, asking Senators to apply political pressure on behalf of the industry, and encouraging customers to call and voice their concerns." *May 4, 2010, DebtWire analyst report.*

Most consumers are not well-versed in bankruptcy options and may falsely believe Sorenson filing for bankruptcy would result in their losing service. To the contrary, in Sorenson's case, a bankruptcy would almost certainly result in minimal customer disruption, but would require the company to restructure its balance sheet.

Sorenson's owners created its current capital structure. The Commission should not use the TRS fund to bail them out.

Summary

- **Purple's VRS rate proposal is in the public interest and saves the TRS Fund $50 million per year, plus:**
  - Protects consumer choice among providers
  - Provides incentive for small providers to grow
  - Provides framework and predictable path on rates for all providers
- **Sorenson's appears to materially misstate it's ability to deliver VRS service profitably at lower rates**
- **It is not the FCC's responsibility to bail Sorenson out of a self-inflicted capital structure that was used to pay cash dividends to investors**
- **If lower VRS rates did result in a restructuring of Sorenson, service to VRS users would not be materially impacted**