



# Communications M&A: Lessons & Strategies

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# Overview

- Summary from client feedback last year
- Friday afternoon events this year
- Presentation input for next year
  - Funny stuff DOR, PUC, FCC, auditors and SOS staffers ask from companies & practitioners
  - Agencies such as SC MASC, NV PUC, Solix, MD Franchise tax, City of Los Angeles, auditor requests in various cities and states

# M & A Overview

- Business Strategies – hand business off to next generation, sell, strategic merger
- Preparation to implement strategy
- Generally value is better when fully compliant – CVA. 20+ valuation approaches
- Recent sales – Verizon/AOL, Charter/BrightHouse, Vonage/Simple Signal
- Practitioners sit on both sides of the table
- Lost in activity – what to do with “shell” company after sale
- Input & Questions now and later

# Case Studies

- 1. Redlighted sellers
- 2. USF classification errors
- 3. Enforcement issues
- 4. Strategic combination of entities

# Case Study – Redlighted Seller

- Summary: prospective seller had significant past due regulatory payments. Some debt transferred to Treasury. Purchase price insufficient to cover debt to U.S.
- Issues
  - Chicken/egg problem with redlight rule
  - Management of debt collection process
  - Negotiation over debt reduction

# Case Study – USF Classification

- Summary: Non-telecom seller discovered to be reselling telecom service as part of a bundle. Had been paying its underlying vendor for years.
- Issues:
  - How much revenue is attributable to telecom resale?
  - Payment of back USF, avoidance of double collection
  - Allocation of risk btw buyer and seller

# Case Study - Enforcement

- Summary: Seller has a pending investigation at the time of a transaction.
- Issues:
  - Structure of transaction – can liability for past action be carved out?
  - Purchase price adjustment
  - Indemnification (up to a cap?)
  - Overcoming regulatory hold

# Case Study – Strategic Combination

- Summary: Buyer acquiring strategic assets held in three inter-related companies. Concentrated markets, but broad licenses held. Buyer establishing a new entity to hold assets.
- Issues:
  - Need to register buyer
  - Unneeded licenses/authorizations
  - Post-transaction filings and payments
  - Who is responsible for clean-up of sellers?



# M&A – Best Practices

- In order to expedite the transaction and minimize tax burdens, seller should:
  1. Pay various funds
  2. Clear at State – annual reports
  3. Pay regulatory fees
  4. SOS – equivalent to Cert. of Good Standing
  5. DOR – tax clearance letter
  6. Prepare for 2 years – bank covenants, stock purchase & NOL carry-forwards

# Options

- Die on the vine or proactive cleanup approach?
- Discussion