ALCATEL, LUCENT FORGE $13.4 BILLION MERGER DEAL

A Franco-American telecom equipment giant was born on Sunday, as Alcatel of France agreed to purchase Lucent Technologies—formerly the manufacturing and research and development arm of the old AT&T Corp.—in a stock deal valued at U.S. $13.4 billion. The merger, which represents the second attempt at a union between the companies, responds to the growing competitive threat posed by certain Asian manufacturers and to the consolidation trend among U.S. and international telcos that rank among Alcatel’s and Lucent’s largest customers. (Initial talks between Alcatel and Lucent ended in 2001 after the companies failed to reach terms on a control structure for the merged entity.) Alcatel’s strength lies in the development of equipment for high-speed digital subscriber line and video-over-Internet protocol networks, whereas Lucent is renowned for expertise in wireless technology. Touted by analysts for its combination of complementary assets, the merger would create a trans-Atlantic manufacturing powerhouse that would (1) command the largest research and development budget in the industry, (2) rank in the top or second-place position in nearly all of its product markets, and (3) assume the global lead in the convergence of fixed and mobile technologies. Under the transaction, Lucent stockholders would receive 0.1952 Alcatel American Depository Shares for every Lucent share held. Although Alcatel shareholders would end up with 60% of the post-merger entity, board membership would be divided equally between the merger partners. To allay U.S. security concerns, a separate company, with three U.S. citizens as directors, would be formed to manage sensitive U.S. government contracts now handled by Lucent and its Bell Labs research arm. Completion of the transaction (slated tentatively in 6-12 months) is contingent upon the approval of European and U.S. antitrust authorities as well as the interagency Committee on Foreign Investments in the U.S. Meanwhile, in another transaction that is said to reflect Alcatel’s shift in focus toward its core telecom equipment business, Alcatel agreed to sell its satellite production operations to Thales, an electronics and defense firm controlled by the French government, for U.S. $2.02 billion in cash and stock. The pact encompasses Alcatel’s stakes in satellite manufacturer Alenia Space and in satellite services firm Telespazio. As a result of the transaction, Alcatel’s current 9.5% stake in Thales would be increased to 21%. Observers expect that the Thales deal, like the spin-off of Lucent’s government contracts, will facilitate Alcatel’s merger with Lucent, as military satellite and other sensitive assets held by Alcatel would come into French government hands.

AT&T, BELLSOUTH TOUT SYNERGIES IN MERGER APPLICATION

The management of Cingular Wireless and other potential operational synergies were spotlighted in FCC merger documents filed last Friday by AT&T Inc. and BellSouth, which argued that the resulting cost savings of $18 billion “will allow for a stronger network, enable more research and development and enhance service quality and lower costs for consumers.” The $67 billion transaction announced last month would create, by far, the largest telecom carrier in the U.S. with more than 70 million local exchange lines, 54.1 million wireless subscribers, and more than 10 million broadband service subscribers across 22 states. As a consequence of Friday’s filing, the FCC is expected to issue a public notice shortly that would seek public comment on the deal and that would also start the agency’s 180-day clock for a decision on the transaction. In their joint filing, AT&T and BellSouth cited constraints in their current joint ownership of Cingular, which is owned 60% by AT&T and 40% by BellSouth. Because a committee appointed by AT&T and BellSouth must approve all strategic decisions, AT&T and BellSouth asserted that, absent their merger, Cingular would remain limited in its ability to adapt to
market changes. Accordingly, the merger partners argued that, “by unifying Cingular’s ownership and management, the combined company will be much more efficient and effective in providing new services that will benefit customers.” Asserting that the merger “involves virtually no increase in horizontal concentration in any relevant market,” the companies also proclaimed that the combination of their respective landline networks with Cingular would “[make] it possible to offer converged wireless/wireline services.”

SES GLOBAL-NEW SKIES COMPLETE $1.16 BILLION MERGER

Just four months after announcing plans to merge in a $1.16 billion transaction, SES Global (SESG) of Luxembourg completed its acquisition of the New Skies satellite fleet upon receiving the approval of the FCC’s International Bureau, which found “no evidence that the proposed transfer would harm competition in any relevant product or geographic market.” At the time of the merger announcement in December, SESG CEO Romain Bausch proclaimed that Netherlands-based New Skies would emerge as SESG’s “third satellite pillar,” alongside the SESG-owned Astra satellite network in Europe and SES Americom in North America. With the addition of five New Skies spacecraft in orbit, SESG now boasts a worldwide fleet of 43 satellites at 32 orbital locations. Concluding that the transaction serves the public interest, the FCC observed that there is little overlap between the two companies, as 221 of the 324 transponders operated by New Skies have no usable coverage of the U.S. Noting further that the merger partners reached a separate agreement with executive branch agencies that responds to U.S. national security and law enforcement questions, the FCC said that the foreign ownership of the companies was not a cause for concern. The FCC, however, conditioned approval of the transaction upon the parties’ compliance with the executive branch agreement.

TELECOM REFORM MEASURE APPROVED BY HOUSE SUBCOMMITTEE

By a vote of 27-4, the House Telecommunications & Internet Subcommittee approved a bill that, among other things, would create a national franchise that would authorize phone companies, such as Verizon and AT&T Inc., to enter the multichannel video program distribution (MVPD) market without having to go through the traditional local franchise process. The measure, introduced last week by House Energy & Commerce Committee Chairman Joe Barton (R-TX), has sparked controversy among Democrats in Congress for the absence of provisions that would require MVPD entrants to build out their entire service area or that would prevent Internet service providers (ISPs) from charging fees for the carriage of premium broadband content. Although lawmakers adopted an amendment that would require ISPs to offer high-speed service without tying it to voice or other products, other amendments proposed by committee Democrats that were aimed at barring ISPs from favoring certain content and that would require full geographic deployment of new MVPD systems were defeated. A second amendment passed that would allow the FCC to impose fines of up to $500,000 for violations of agency principles that call on broadband ISPs to provide unhindered access to the Internet. Terming the FCC’s principles as “vague and unenforceable,” ranking committee Democrat Ed Markey of Massachusetts asserted that they “do not encompass the non-discriminatory protections that the Internet has always had and desperately needs in order to ensure its continued vibrance.”

HOUSE BILL WOULD EXPAND USF ELIGIBILITY TO BROADBAND

Providers of broadband service would be entitled to universal service fund (USF) support under legislation introduced in the House by Representatives Lee Terry (R-NE) and Rick Boucher (D-VA). Described by Terry as a “consensus measure,” the Universal Service Reform Act of 2006 updates an earlier discussion draft that had been the subject of industry consultations for nearly a year. Aiming to relieve the funding strain on traditional phone providers as USF-exempt voice-over-Internet protocol (VoIP) operators enter the market in greater numbers, the bill would subject “providers of services which substitute for traditional service and providers of connections to the broadband network” to USF contribution requirements. In turn, broadband providers would be deemed eligible for USF support, and fund recipients would be required within five years to offer high-speed broadband service with minimum download speeds of at least 1 megabit per second. The legislation would also cap the USF at current funding levels, enact limits on distributions provided to competitive eligible telecommunications carriers (consisting mainly of wireless operators that provide the equivalent of landline services in rural areas), and allow the FCC to adopt a contribution mechanism that is based on revenues, numbers of lines, or both. Calling USF reform “a significant step in closing the gap between rural America and urban America,” Terry predicted that “the commonsense approach embodied in this measure will ensure that [USF] support remains available for the preservation of local exchange and broadband service, particularly in rural and underserved areas, far into the future.”
VERIZON TO SELL LATIN AMERICAN ASSETS FOR $3.7 BILLION

Verizon Communications stocked its FiOS network war chest with agreements Monday to sell its Caribbean and Latin American telecom assets to two companies, controlled by Mexican billionaire Carlos Slim, for $3.7 billion. The transactions involve Verizon Dominicana, the leading phone service provider in the Dominican Republic, Verizon’s 52% stake in Telecommunicaciones de Puerto Rico (TPR), and Verizon’s 28.5% interest in CANTV, the fixed-line incumbent in Venezuela. America Movil, the top wireless provider in Latin America with 93 million subscribers, is slated to assume Verizon’s TPR stake as well as Verizon’s 100% holding in Dominicana. Verizon’s CANTV stake, meanwhile, would be purchased by a joint venture combining America Movil and Telmex—both of which are controlled by Slim. The deal adds 15 million wireless, landline, and broadband subscribers to the ever-growing Latin American empire of America Movil-Telmex. Observers expect that Verizon will use the sale proceeds to finance the expansion of its FiOS fiber-optic network in the U.S. Acknowledging that “our investments in the Caribbean and Latin America have been a source of solid financial performance,” Verizon Chairman Ivan Seidenberg explained that the stakes encompassed by the deal “represent a small part of our revenue base that is less aligned with our core business focus and future growth.”

NTL STRIKES $1.67 BILLION DEAL FOR VIRGIN MOBILE

In an important deal that impacts the British telecom market, U.K. wireless operator Virgin Mobile agreed to accept a U.S. $1.67 billion takeover bid from cable operator NTL that would create the first quadruple-play telecom operator in the British Isles. Tuesday’s offer is considered an improvement over NTL’s initial bid of $1.4 billion, which Virgin rejected in December as being too low. Capping nearly four months of negotiations, the parties agreed this week to provide Virgin shareholders with three options: (1) a cash offer of 372 pence per share, (2) 0.23245 shares of NTL stock for each share of Virgin stock held, and (3) a combination, consisting of 0.18596 shares of NTL stock plus 67 pence in cash, for each Virgin share held. Sources say the cash option represents a premium of 19.6% over Virgin’s closing share price on December 2—the last business day preceding NTL’s initial offer. U.K. billionaire Richard Branson, currently the controlling shareholder of Virgin, would rank as the top shareholder of the combined entity with a 10% stake. By adding Virgin’s wireless assets to its stable, the post-merger NTL would emerge as the first provider in the U.K. to offer customers a four-way package of television, broadband, fixed-line telephony, and mobile phone services. The agreement also provides NTL with a 30-year license to offer consumer services under the Virgin brand name. NTL predicted that the merger would “help transform NTL . . . into a national entertainment and communications company.”

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For information about any of these matters, please contact Patrick S. Campbell (e-mail: pscampbell@paulweiss.com) in the Paul, Weiss Washington office. To request e-mail delivery of this newsletter, please send your name and e-mail address to telecom@paulweiss.com.