

This Week's Stories

Sprint's Stock Dives, But Company Reiterates Value

January 20, 2010

Sprint Nextel's stock dropped yesterday amid concerns that recent pricing moves by Verizon Wireless and AT&T Mobility could put increased pressure on the company. However, the carrier sought to point out that even after the price cuts by AT&T and Verizon it still offers a better value.

On Friday, both Verizon and AT&T made changes to their unlimited calling plans. Verizon lowered its unlimited talk plan to \$69.99 per month, and unlimited talk and text to \$89.99 per month. Its unlimited data plan remained unchanged at \$29.99 per month. AT&T said feature phone users can get unlimited talk for \$69.99 per month, quick messaging device customers (those who own devices that do have Qwerty keyboards but are not smartphones) can get unlimited talk and text for \$89.99 per month and all smartphone users, including iPhone users, can get unlimited voice and data (but not messaging) for \$99.99.

Analysts said the new pricing wouldn't disrupt Sprint too much, but some voiced their concerns.

"In retrospect, Sprint had it easy in 2009," Bernstein analyst Craig Moffett wrote in a research note that announced his rating reduction on Sprint. "In prepaid, they had the luxury of a small starting subscriber base, making net growth easy even at high churn rates. In postpaid, they enjoyed something of a price umbrella; neither Verizon nor AT&T moved aggressively on postpaid pricing in 2009. Now, new pricing plans announced by Verizon and AT&T on Friday in postpaid, and by MetroPCS in prepaid, tighten a vise that leaves Sprint once again stuck in the middle."

Sprint sought to beat back concerns that it was under pressure. The company put out a press release pointing out that its Simply Everything plan, which offers unlimited voice, texting and data for \$99.99 per month, is still \$20 cheaper per month than a comparable Verizon plan.

"Clearly, even with our competitors' price movements, we're still the leader in value," Sprint spokesman Scott Sloat told *Dow Jones Newswires*. "If you add that in with our strong device portfolio and that we're the only one offering 4G, you get a good picture of where we are."

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AT&T Needs to Spend US\$5B to Catch Up

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AT&T would need to spend about US\$5 billion on its wireless network to catch up with the coverage offered by Verizon Wireless, a financial research firm said Tuesday.

The public's perception of AT&T's network is poor and declining, apparently because of real shortcomings when compared with Verizon Wireless and Sprint Nextel, said Gerard Hallaren, director of research at TownHall Investment Research. The company hosted a conference call about AT&T for investors in conjunction with WJB Capital Group. TownHall announced it has reduced its rating of AT&T from "Favorable" to "Neutral."

The second-largest U.S. mobile operator has been buoyed by its exclusive deal to sell the popular Apple iPhone -- an edge that is expected to disappear soon -- but has been shortchanging its wireless infrastructure at the expense of its wired network, Hallaren said.

"It has a choice to spend or suffer," Hallaren said.

According to TownHall, AT&T's capital expenditures on its wireless network from 2006 through September 2009 totaled about \$21.6 billion, compared with \$25.4 billion for Verizon and \$16 billion for Sprint (including Sprint's investments in WiMax operator Clearwire). Over that time, Verizon has spent far more per subscriber: \$353, compared with \$308 for AT&T, Hallaren said. Even Sprint has outspent AT&T per subscriber, laying out \$310 for network capital expenditure.

That investment shortfall has been the major cause of AT&T's poor network performance, which has been reflected in tests by Consumer Reports and PC World, Hallaren said. Nine months ago, when TownHall first examined the issue, AT&T itself didn't understand how bad the situation was, he said. Top management now seems to understand the issue, though it's not certain AT&T will actually make the necessary investments, he said.

AT&T's 3G network is based on HSPA (High-Speed Packet Access) 7.2, a system designed to deliver as much as 7.2M bps (bits per second). Verizon uses EV-DO (Evolution-Data Optimized), which that carrier said offers as much as 1.4M bps in real-world performance. The speed of the network for individual subscribers depends on a variety of factors. The PC World test, conducted by Novarum last year, found mixed results for network speeds among AT&T, Verizon and Sprint but showed AT&T in last place for reliability in all 13 cities tested.

AT&T covers 97 percent of the U.S. population and has the nation's fastest 3G network, company spokesman Mark Siegel said.

Part of the problem is that AT&T invests more in its wired infrastructure than in its wireless network, even though the wireless business contributes a majority of the carrier's profit, Hallaren said. AT&T gets 57 percent of its operating income from wireless and only 35 percent from wired services, but wireless only gets 34 percent of the capital expenditures, with the wired network taking up 65 percent of that spending, according to TownHall. It's not clear that the investments in the U-Verse network, which in most cases takes fiber to a neighborhood and relies on copper lines to reach individual homes, will pay off, Hallaren said. Verizon's FiOS uses fiber all the way to homes and can deliver higher speeds, though at a higher deployment cost per home.

The \$5 billion investment gap could expand to \$7 billion because of the need for new backhaul capacity to link AT&T's wireless network into the wired Internet, Hallaren said. Backhaul is a problem for all mobile operators that will get worse as they increase wireless speeds, he said. Another looming problem for AT&T is that its E911 emergency calling system, which works on its older GSM (Global System for Mobile communications) network, hasn't been adapted to use 3G and is unlikely to make the migration soon, he said. That means AT&T will have to maintain that old network for the foreseeable future, including possibly more capital investment for more power-efficient GSM equipment, according to Hallaren.

Even as AT&T makes these investments, the carrier is likely to lose some subscribers after the end of its exclusive deal for the iPhone, which Hallaren expects to come in May or June. That deal has helped the carrier both to attract subscribers and to generate healthy profit margins, he said.

"This is going to be a juggling act for them," Hallaren said.

AT&T has already done some things right, he added. Moving the 3G service to its longer range 850MHz radio band in the San Francisco area seems to have helped coverage there, and the company will probably take that strategy nationwide while testing coverage in specific areas and "surgically" increasing capacity, Hallaren said. As one of the world's largest GSM carriers, AT&T is also well positioned to roll out LTE (Long-Term Evolution), which is designed to deliver higher speeds more efficiently, and should do it soon, he said. AT&T has said it will begin to introduce LTE next year.

<http://www.pcworld.com>

2010 Will Be Better Than 2009 for Equipment Vendors

January 20, 2010

The major network infrastructure vendors likely are going to see a boost in fourth quarter sales compared with the previous quarter, but many long-term challenges to profitability remain, and consolidation lurks as a potential issue.

The companies likely are going to have a better 2010 than 2009. The research firm Gartner predicts the infrastructure market will shrink by 2 percent this year, compared with 7 percent last year. Still, it's unclear whether LTE orders will lead to as much growth in the market as had been thought. All the while, intense competition from the likes of Huawei could put even more pressure on struggling vendors such as Alcatel-Lucent and Nokia Siemens Networks.

"Current prices are clearly not at levels that sustainably can support multiple mobile infrastructure players," Bengt Nordstrom, the head of Swedish telecoms consultancy Northstream, told *Reuters*. "Our prediction is that the number of global full infrastructure players will be reduced to three during 2010."

Ericsson, which has faced intense competition from Huawei in its home Scandinavian region, is expected to have stronger sales and earnings than it had in the third quarter, when its profit tumbled 71 percent. There some unknowns though, including how its managed services deal with Sprint Nextel will affect margins and whether its Sony Ericsson joint venture will drag on profits. Ericsson reports earnings Jan. 25.

Nokia Siemens Networks, in the midst of a vast restructuring, likely will lose market share, though its sales are expected to be higher than in the third quarter. Nokia and Siemens recently reiterated their support for the struggling joint venture, which after it reported third quarter results said it might cut nearly 6,000 jobs as part of a cost-cutting program. Nokia Siemens reports Jan. 28, along with Nokia.

Alcatel-Lucent, still struggling to get to profitability, is expected to enjoy a sequential rise in sales in the fourth quarter. Analysts will be looking to see if the company can meet its target of break-even at the adjusted operating level in 2009. Analysts also will be looking for confirmation of a forecast that the market will be between flat and up 5 percent this year. Alcatel-Lucent reports earnings Feb. 11.

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AT&T, Verizon Price Cuts May Have Small Impact on Revenue

January 22, 2010

The price cuts AT&T Mobility and Verizon Wireless made to their unlimited plans likely will not have much of a negative impact on their revenue, as market dynamics and the benefits accrued from the simplified pricing structure will offset most revenue losses. Meanwhile, with quarterly earnings announcements approaching, attention turned to pressure on margins at the nation's two largest telcos.

Verizon's decision to couple its price cuts with a \$9.99 per month data plan for some of its devices will help offset revenue. Additionally, only around one million of Verizon's 90 million subscribers are on an unlimited calling plan currently, according to Verizon CEO Lowell McAdam. And at AT&T, many customers are on family plans and would not really benefit from making the switch to the new plans. By simplifying their offerings, the two carriers also are likely to cut down on customer confusion, reducing customer service costs.

Verizon and AT&T late last week each reduced the price of their postpaid unlimited monthly calling plans by around \$30, to \$69.99 per month for individuals.

Both carriers have seen their subscriber bases continue to grow over the past several quarters at the expense of smaller Tier 1 rivals Sprint Nextel and T-Mobile USA, even without the price cuts. That growth will be in focus next week when AT&T and Verizon report their fourth quarter earnings.

Verizon is expected to add around 1.6 million new wireless customers, while its landline division is expected to lose hundreds of thousands of subscribers. The company also increased its marketing in the quarter for the Motorola Droid and for an extensive advertising campaign against AT&T, which could help drive down margins; analysts expect Verizon's operating margin to be around 39 percent. At AT&T, the company is expected to lose around a million landline customers and gain roughly 2 million wireless subscribers. The company's margins have been rising slightly, and its wireless margin is expected to be around 36 percent.

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Sony Ericsson Has Sixth Consecutive Loss, Sees Challenging 2010

January 22, 2010

Sony Ericsson Mobile Communications AB, the mobile-phone venture of Sony Corp. and Ericsson AB, reported its sixth consecutive quarterly loss and said 2010 will be "challenging."

The fourth-quarter net loss narrowed to 167 million euros (\$236.4 million) from 187 million euros a year earlier, the London-based company said in a statement today. Sales declined 40 percent to 1.75 billion euros. Analysts had estimated a net loss of 169 million euros on sales of 1.9 billion euros, according to a survey by SME Direkt.

Sony Ericsson has lost sales to other handset makers as competition in the smartphone market increased. The company has introduced new phones using Google Inc.'s Android software and announced three development site closures in November as it carried out its second round of savings measures in two years.

"The year-on-year decrease in sales was mainly due to a downturn in the global handset market and a faster than anticipated shift to touchscreen phones in the mid-priced sector of the market," the company said in the statement.

Sony Ericsson shipped 14.6 million handsets in the fourth quarter, down 40 percent from a year earlier, and the average selling price declined to 120 euros from 121 euros.

"We will continue to focus on returning the company to profitability," Chief Executive Officer Bert Nordberg said in the statement. "2010 will still be challenging as the full benefit of cost improvements will not impact results until the second half of the year."

<http://www.bloomberg.com>

Product & Service News

Apple Said to Talk With Microsoft Over iPhone Search

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Apple Inc. is in talks with Microsoft Corp. to replace Google Inc. as the default search engine on the iPhone, according to two people familiar with the matter.

The talks have been under way for weeks, said the people, who asked not to be identified because the details aren't public. The negotiations may not be concluded quickly and might still fall apart, the people said.

The discussions reflect the intensifying rivalry between Apple and Google, currently the main search engine on the iPhone. While the companies have worked as partners in the past and Google Chief Executive Officer Eric Schmidt served on Apple's board, they now compete in markets such as mobile phones. Google introduced its Nexus One phone this month and offers a mobile operating system called Android.

"To the extent that it threatens Google, such a deal would be good for Apple," said James McQuivey, an analyst at Cambridge, Massachusetts-based researcher Forrester Research Inc.

Apple is also working on ways to manage ads displayed on its mobile devices, a move that would challenge Google's advertising business, one of the people said.

Frank Shaw, a spokesman for Redmond, Washington-based Microsoft, and Katie Cotton, a spokeswoman for Cupertino, California-based Apple, declined to comment. Google spokeswoman Katie Watson also declined to comment.

Bing Default

A deal between Apple and Microsoft would likely mean iPhone owners would automatically get Microsoft's Bing as the main search engine, possibly requiring them to actively change the phone's settings if they want to search using Google.

Google is now the default engine on the iPhone. To search via Bing, users need to go to the Bing Web site through the phone's Web browser or download a separate Bing application.

Being the default search engine on the iPhone generates sales for Google, which collects revenue from ads placed alongside its search results. To clinch the deal, Microsoft may be willing to share more revenue with Apple, one of the people said. Apple and Google don't disclose the financial terms of their search partnership.

Market Share

Taking the default spot on the iPhone would also help Microsoft gain market share for Bing. Of people who use their phones to search the Web, 86 percent used Google in November, compared with 11 percent for Bing, according to New York-based Nielsen Co.

Cooperation between Apple and Microsoft isn't unprecedented. Microsoft sells Mac versions of its Office suite of business programs. When Apple co-founder Steve Jobs returned to the company in 1997, one of his first acts was to settle intellectual property infringement claims with Microsoft in exchange for \$150 million and a promise from Microsoft that it would continue developing Office for the Mac.

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Verizon's Palm Pricing: WiFi Hotspot Service to Cost \$40

January 21, 2010

Verizon Wireless will begin selling the Palm Pre Plus and Pixi Plus--the carrier's first devices running Palm's webOS platform--on Monday for the same price that Sprint Nextel sells the Pre and Pixi. The Pre Plus will go for \$149.99 and the Pixi Plus will go for \$99.99, each with a two-year contract and after a \$100 mail-in rebate. Verizon also is offering a Pixi Plus for free after a mail-in rebate with the

purchase of another Palm device, through Feb. 14.



Verizon's Palm Pixi Plus, left, and Palm Pre Plus.

Perhaps the most notable difference between Verizon's webOS devices and Sprint's is that Verizon's two smartphones will support a downloadable application that turns them into mobile WiFi hotspots, thereby allowing customers to connect up to five WiFi-capable devices to Verizon's

network. The service will cost \$40 per month for 5 GB and 5 cents per megabyte overage, in addition to monthly service costs. The pricing is in line with the carrier's MiFi device from Novatel, service for which also starts at \$40 per month.

Aside from the hotspot service, the Pixi Plus features the addition of WiFi and the Pre Plus has double the internal memory, from 8 GB to 16 GB.

The launch for Palm represents a dramatic broadening of its possible customer base. For nearly a year Sprint Nextel has been the exclusive carrier of Palm devices in the United States. And that situation appears to have been a drag on Palm. In its fiscal second quarter, Palm's

smartphone sell-through--how many devices consumers actually bought--fell 29 percent from the previous quarter and 4 percent year-over-year.

Separately, AT&T Mobility also announced will launch exclusive webOS devices later this year, though the carrier did not provide any further information.

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mobile broadband business, which it has said is a key growth driver for the company

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Mergers/Acquisitions/Partnerships

Report: Leap May Be Considering Merger Plans

January 19, 2010

Leap Wireless is back in the spotlight after a report said the flat-rate carrier was close to hiring a bank to explore its strategic options, including a possible merger with another wireless operator. Companies usually employ a bank in order to navigate major strategic moves like mergers or acquisitions.

The DealReporter.com report cited an unnamed source and said possible merger discussions were still in the early stages and would likely continue through the second quarter. Leap declined to comment on the report.

The report fueled ongoing speculation that Leap might be considering a merger with its oft-rumored merger partner and flat-rate competitor MetroPCS. However, as recently as November, MetroPCS CEO Roger Linquist reiterated that the company was not interested in a merger with Leap. Analysts remained divided over whether such a partnership still makes sense, given that the companies signed a reciprocal roaming agreement in the fall of 2008. Leap rejected a \$4.7 billion takeover bid from MetroPCS back in 2007.

"It's certainly in Leap's best interest to at least explore the potential of attracting as many interested parties as possible," Soleil/Nelson Alpha Research analyst Michael Nelson told *Reuters*. Other analysts thought the time had passed for a merger.

"They're very complementary companies, so they would fit nicely together," Pacific Crest analyst Steve Clement told *Dow Jones Newswires*. "But the biggest justification for a merger in the past was combining the companies' network footprints to sell to a wider footprint."

Both Leap and MetroPCS have suffered slowing growth amid increasing competition in the prepaid wireless market. Leap has focused its attention on its prepaid



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