

## This Week's Stories

### **Droid to Help Verizon Narrow Gap with AT&T**

January 25, 2010

Verizon Wireless is expected to have caught up a little with AT&T Inc in the race for new wireless subscribers, as momentum built behind Motorola Inc's Droid smartphone in the fourth quarter.

But thanks to Apple Inc's iPhone and Amazon.com Inc's Kindle e-reader, AT&T is still forecast to have added 1.8 million net new customers in the last three months of 2009, above Verizon Wireless' 1.5 million, according to the average estimate from four analysts polled by Reuters.

Nonetheless, that is an improvement for Verizon from the third quarter, when AT&T's 2 million additions far outpaced the 1.2 million at Verizon Wireless, a unit of Verizon Communications Inc and Vodafone Group Plc.

"You had AT&T with a huge quarter in Q3," said Pacific Crest Securities analyst Steve Clement. But he added, "The momentum on the iPhone might be waning a bit. The Droid was successful for Verizon in the fourth quarter."

Motorola is expected to sell more than a million Droid phones in the quarter, according to five analysts contacted by Reuters. While that is much smaller than forecasts for iPhone sales, it is still relatively big for a single phone.

Clement expects AT&T to have activated about 2.6 million iPhone customers in the quarter, down from the 3.2 million in the third quarter.

In terms of the valuable monthly bill-paying customers, known as postpaid subscribers, Verizon's exclusive U.S. rights to the Droid helped it draw almost level with AT&T, the exclusive U.S. carrier for the iPhone, analysts say.

The average forecast is that Verizon added over 1 million net postpaid subscribers in the fourth quarter, compared to 1.1 million for AT&T.

#### PREPAID EXPANSION, MARGINS

Both AT&T and Verizon have been expanding into new areas for growth as most people already own cellphones.

For example, the Kindle e-reader is seen adding as many as 500,000 new customers to AT&T, according to analysts.

Verizon Wireless is seen adding as many as 450,000 new users to its network from an unlimited prepaid service on Tracfone, an America Movil unit that rents capacity from Verizon and sells its service in Wal-Mart Stores Inc outlets.

Analysts see prepaid services and devices like Kindle as increasingly important for customer growth, even though they bring less average monthly revenue per user (ARPU).

"Growth in the industry going forward will be much more weighted toward prepaid and wholesale, therefore industry ARPU will go down," said Jefferies & Co analyst Jonathan Schildkraut.

But since carriers don't pay subsidies for prepaid phones or devices like e-readers, they still could help margins.

"If you back out the subsidy piece of the story, probably from the margin perspective it's pretty good, potentially in line with traditional phone subscribers," Schildkraut said.

Analysts expect heavy marketing expenses for the Droid, which uses Google Inc's Android software, to have cut into Verizon Wireless's profit margin in the quarter.

The biggest U.S. mobile service is expected to report a fall in its mobile service profit margin, before certain items, to 45.4 percent for the fourth quarter from 47.2 percent in the year-ago quarter and 46 percent in the 2009 third quarter, according to four analysts contacted by Reuters.

In comparison, AT&T's profit margin is seen increasing to 39.2 percent, from 35.8 percent in the year-ago quarter and 38.5 percent in the third quarter, according analysts.

Operators have long depended on cool devices to attract new customers but the focus may change this year as AT&T is widely expected to lose its U.S. exclusivity contract for iPhone, Schildkraut said.

"We think we're going to get to handset parity. This will return focus to network reliability," he said, noting that this could mean rougher waters for AT&T as it has faced complaints from customers for network quality in some markets.

<http://www.reuters.com>

## Ericsson Profit Declines as Customers Slash Spending

January 25, 2010

Ericsson AB, the world's largest maker of wireless networks, reported a 92 percent drop in fourth-quarter profit, falling short of analysts' expectations, as phone companies reduced spending.

Net income slumped to 314 million kronor (\$43.4 million) from 3.89 billion kronor a year earlier, Stockholm-based Ericsson said today in a statement. Analysts had anticipated profit of 2.5 billion kronor, the average of 17 estimates compiled by Bloomberg. Revenue slipped 13 percent to 58.3 billion kronor.

"It's going to be challenging to both maintain market share and secure healthy financial development, with Chinese equipment manufacturers being so aggressive and the latest contracts likely having been signed on cut-throat margins," said Fredrik Thoresen, an Oslo-based analyst with DnB NOR Markets, who has a "sell" rating on Ericsson.

Ericsson's customers cut investments in older GSM systems, while spending on higher-capacity mobile broadband networks hasn't grown fast enough to fill the gap, the company said. The Swedish telecommunications-equipment supplier's margins suffered on price competition from Chinese vendors such as Huawei Technologies Co., which has beaten Ericsson in its own backyard to win business in Nordic countries.

Ericsson fell 1.1 percent to 71.10 kronor in Stockholm.

Chief Executive Officer Hans Vestberg said at a briefing in Stockholm that price erosion didn't increase in the fourth quarter. He declined to give an outlook for this year.

'No Clarity'

"It's too early to say something about 2010," Vestberg said in an interview. The market "hasn't been getting worse in the fourth quarter, it's staying the same."

The company took a restructuring charge in the quarter of 4.3 billion kronor for job cuts to adjust to lower client spending. The program still has two more quarters to run, and about 6,500 jobs in total will be eliminated, more than the 5,000 originally forecast, Ericsson said today.

"The company didn't give clarity on 2010 or the situation at the carriers," said David Hallden, the head of research at HQ Bank in Stockholm. "With network sales down 20 percent, these boys need to cut prices."

HQ Bank has a "no case" rating on Ericsson, meaning sentiment is neutral. Hallden recommends clients invest elsewhere for now, he said. He expects capital expenditures as a percentage of sales at carriers to be flat this year.

While Ericsson is building the core network for Swedish carrier TeliaSonera AB's fourth-generation network in the country and in Norway, Telenor ASA and Tele2 AB chose China's Huawei to build their fourth-generation network in Sweden.

Joint Ventures

Fourth-generation, or long-term evolution, transfers data faster over mobile broadband networks.

The networks business saw "good development with major network buildouts" in China, India and the U.S., Vestberg said. Operators in Central Europe, the Middle East and Africa were "increasingly cautious with investments" in the quarter, Vestberg said.

The company last week named Rima Qureshi to head the North American CDMA and LTE business it acquired from Nortel Networks Corp. The acquisition makes Ericsson the second-biggest company globally in CDMA networks, which are used by Verizon Wireless and Sprint in the U.S.

Vestberg said he aims for the company to grow faster than the market in 2010 and for income from joint ventures to increase. The company's joint ventures and associated companies, including ST-Ericsson and Sony Ericsson Mobile Communications, posted losses for the quarter, paring 1.46 billion kronor from operating income.

Acquisitions

Both companies booked restructuring charges and reported operating losses without the restructuring.

Ericsson is expanding in services as revenue in its network-equipment business declines on lower spending by carriers and price competition from Chinese vendors. The company last year began a seven-year contract to manage networks for Sprint Nextel Corp. as well as a five-year management agreement with Zain in Nigeria.

Ericsson services chief Magnus Mandersson predicted growth of at least 10 percent in services will continue as telecommunications carriers outsource network management and systems integration. The division is adding 1,000 systems integration workers in Italy with its acquisition of Pride SpA this month.

The company may buy more small service providers, Vestberg said in an interview in Stockholm.

Ericsson forecast almost 3 billion new mobile subscriptions globally through 2014, adding to 4.6 billion existing ones. Growth has slowed from 2008, the company said. Telephone companies added 163 million new mobile subscriptions in the quarter, Ericsson said.

<http://www.bloomberg.com>

## Is Verizon Seeing the Benefits From Straight Talk?

January 27, 2010

There was an interesting tidbit to come out of yesterday's fourth quarter earnings report from Verizon Wireless--the operator had total net adds of 2.2 million--but 1 million of those net adds came from resellers. This is notable because, unlike some of its carrier counterparts, Verizon has never catered to the reseller channel. Instead, the company has prided itself on its abundance of retail postpaid subscribers.

When probed, Verizon Chief Financial Officer John Killian said the 1 million new reseller customers came from several different resellers. "It wasn't just one party," he said, adding that Verizon's new resellers operate at a much higher level of ARPU than the traditional reseller base Verizon has worked with in the past.

So where did these 1 million reseller customers come from? John Byrne, analyst with Technology Business Research in Hampton, N.H., said the carrier likely saw some uptick when reseller Great Call moved its Jitterbug wireless service onto Verizon's network last year. However, he believes that the vast majority of those new customers probably came from the new Straight Talk offering from TracFone.

There are two Straight Talk plans: one offers 1,000 voice minutes for \$30 per month and the other provides unlimited voice, text messaging and 30 MB of data for \$45 per month. In October, Wal-Mart announced it would sell Straight Talk at all of its 3,200 stores nationwide, and at the same time TracFone expanded its Straight Talk promotional efforts.

While this appears to have turned out to be a good thing for Verizon, I suspect the carrier's success may have come at the expense of Straight Talk's competitors in the unlimited prepaid space. We'll find out when Leap Wireless, MetroPCS and the rest report their earnings in the coming weeks.

According to Mark Lowenstein, managing director of Mobile Ecosystem, Verizon started expanding its wholesale channel in 2009 following the successes players like Sprint Nextel enjoyed through its Boost Mobile prepaid unlimited brand. Lowenstein said prepaid

unlimited is now the most competitive area of the industry. He also cautioned: "Not everyone will be a winner."

But Verizon must now tread carefully with Straight Talk. Lowenstein said carriers should not overly dilute their brand with these other offerings. For now, consumers likely are not really aware that Straight Talk is a Verizon service, and that's a good thing because Straight Talk is significantly cheaper than any Verizon-branded wireless plan.

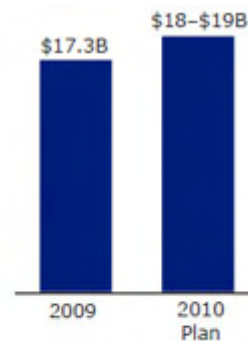
"We saw this happen in the long distance business," Lowenstein noted. And the long distance market is definitely not one that wireless service providers want to mimic.

<http://www.fiercewireless.com>

## AT&T Nears Record with 2.7M Net Adds in Q4

January 28, 2010

Verizon Wireless' aggressive holiday ad campaign slamming the quality of AT&T Mobility's 3G network didn't stop customers from signing up for AT&T wireless service. The carrier rounded up 2.7 million net new wireless subscribers during the fourth quarter--the second highest quarterly gain in the company's history.



[Click here](#) for AT&T's full presentation on wireless in the fourth quarter.

However, issues surrounding AT&T's wireless network continue to be a sore spot for the carrier, and executives spent much of their quarterly conference call discussing what AT&T is doing to improve it. Specifically, AT&T will spend \$18 billion to \$19 billion on its network this year, notably above the \$17.3 billion it spent in 2009. This includes an increase of \$2 billion for improving backhaul capacity.

On the revenue side, AT&T posted fourth-quarter wireless service revenues of \$12.6 billion, up 9.2 percent from the same quarter in 2008. The carrier's operating income clocked in at \$3.4 billion, up 24.7 percent over the year prior. Here's a breakdown of the rest of AT&T's key metrics:

**Subscribers:** AT&T added 2.7 million net new subscribers in fourth quarter, for a total of 7.3 million net new subscribers in 2009. The company's total subscriber base reached 85.1 million (still behind No. 1 carrier Verizon's

91.2 million). AT&T's net new postpaid subscribers totaled 930,000 in the fourth quarter and 4.3 million for the full year.

**iPhone and iPad:** Apple's iPhone continued to drive consumers to AT&T. The company activated 3.1 million iPhone users in fourth quarter, and more than a third were new to AT&T. During the conference call with analysts, AT&T executives said the new Apple iPad is a different model for AT&T because the company is not subsidizing the device and because customers will activate it online--thus, AT&T won't have the typical activation and billing costs. However, executives also said they believe iPad users will rely predominantly on WiFi, and therefore it won't drain AT&T's 3G network. "We will monitor the usage as the device gets out there," said Rick Lindner, senior executive vice president and CFO at AT&T. "If it turns out substantially different, we will adapt."

**Emerging devices:** AT&T's new emerging devices division also posted a strong quarter, adding more than 1 million new devices onto the network. AT&T executives said that, despite smaller ARPU than standard phones, such devices typically carry low churn numbers and high margins.

**Data:** AT&T's wireless data revenues hit \$3.9 billion in fourth quarter, an increase of 26.3 percent over the year prior. Text messages increased 70 percent to 135 billion and multimedia messages doubled to more than 2 billion in the period.

**ARPU:** Postpaid average revenue per user was \$61.13, an increase of 2.6 percent over the year-earlier quarter. Postpaid data ARPU was \$19.16.

**Churn:** Postpaid churn was 1.19 percent, down from 1.2 percent a year ago. Total churn was 1.44 percent, lower than the 1.64 percent AT&T recorded in the fourth quarter of 2008.

AT&T's stock remained relatively unchanged on the news, hovering at \$25.74 in mid-afternoon trading.

<http://www.fiercewireless.com>

## **Product & Service News**

### **AT&T Requiring Data Plan for 'Quick Messaging' Phones**

January 29, 2010

AT&T Mobility has followed Verizon Wireless' lead and is now requiring customers to add a \$20 per month data plan to their service when they purchase certain classes of non-smartphone devices. The changes apply to "Quick

Messaging" devices such as the Samsung Solstice and LG Neon.

Under the new requirement, AT&T "Quick Messaging" phone customers must purchase a \$20 per monthly minimum plan for messaging and/or data for individual lines. Family plans will be required to have a minimum \$30 per month per line plan for texting and/or data.

"Nearly all of these devices now have full Web browsing capabilities, and as such, customers are more likely than ever to surf the Web on them," AT&T spokeswoman Jenny Bridges told *FierceWireless* in explaining the move. "In light of this increased usage, a data and/or text plan will enable customers to enjoy a plan that does not involve paying as-you-go charges."

The changes apply to new customers who purchase these devices as well as subscribers who upgrade to them, Bridges said, noting the changes went into effect Jan. 18.

The move mirrors a similar action by Verizon Wireless. When Verizon unveiled its new unlimited calling and messaging plans earlier this month, the carrier said shoppers who purchase certain devices--which it classified as "3G Multimedia" phones--will be required to add a minimum \$10 data plan to their service. (It's worth noting that AT&T lowered the price of its own unlimited calling service hours after Verizon did--and to the same price as Verizon).

<http://www.fiercewireless.com/>

### **Apple Backs VoIP Calls Over 3G Networks for iPhone**

January 28, 2010

Apple Inc. is allowing iPhone owners to use Internet calling services over cellular networks.

Several companies offering Voice over Internet Protocol — or VoIP — services said this week that Apple now allows their applications to work on the iPhone.

VoIP calling has been available on the iPhone, but only over Wi-Fi connections, which don't have the range of 3G cellular networks.

Apple on Thursday confirmed the change and said it applies to applications for the iPhone and the new iPad tablet device unveiled this week, some of which will come with 3G capabilities.

Apple's earlier decision to block a Google Inc. calling application triggered an inquiry by the Federal

Communications Commission, which is investigating competition in the wireless industry.

Apple said at the time that it blocked Google Voice because the program duplicated some of the iPhone's features, and that it was still studying the application.

Two months after the FCC sent letters to Apple, Google, and AT&T Inc. — the iPhone's exclusive U.S. wireless carrier — AT&T said it had tweaked its technology to allow VoIP services on the iPhone to work over its 3G wireless network, even though the services challenge AT&T's core calling business.

AT&T also revealed that Apple wasn't allowed to enable any Internet calling applications that use AT&T's 3G network without AT&T's permission. Apple vowed to get VoIP applications into its App Store.

FCC Chairman Julius Genachowski on Thursday praised Apple's latest decision, calling it "an action that will create new opportunities for entrepreneurs and provide more choices for consumers."

<http://www.wirelessweek.com>

## Why Apple is Sticking with AT&T

January 27, 2010

To many, the most shocking part of Apple's Wednesday unveiling of its new iPad tablet computer was the fact that the company stuck by business partner AT&T.

After all, AT&T's patchy support of Apple's iPhone has generated consumer ire for months with users across the country complaining of dropped calls and dead zones. The problems lent credence to a rumor that Verizon Wireless would be tapped to host Apple's new gadget, either alongside AT&T or by itself. But at its press event Wednesday, Apple named AT&T as the sole carrier for the third generation (3G) version of the iPad.

So why did AT&T prevail over competitors at a time of great stress in its relationship with Apple? Experts cite three main reasons: the desire for both companies to preserve their alliance, AT&T's Wi-Fi assets and network readiness.

Despite consumer discontent, AT&T continues to benefit from its affiliation with the iPhone, says Current Analysis

research director Bill Ho. In its last financial quarter the carrier added 2 million wireless subscribers, largely thanks to the iPhone. The company said the increase represented its highest third-quarter net gain ever.

The iPhone, in fact, may be significant enough to AT&T's business that AT&T gave Apple better terms than Verizon would have. Apple is offering two 3G data plans for the iPad: \$30 per month for unlimited data, and \$15 for 250 megabytes of data. Both prices are cheaper than AT&T's normal mobile broadband plans. AT&T is also allowing users to cancel their broadband service at any time, because the cost is prepaid. "We have a great relationship with Apple and we're delighted that they've announced we're the 3G U.S. network provider for iPad," said AT&T spokeswoman Jeannie Hornung.

Next is the Wi-Fi factor. While Apple may have been impressed by the quality of Verizon's wireless network, the company likely considered AT&T's Wi-Fi resources to be an even stronger asset, says Ho. AT&T's Wi-Fi network spans more than 20,000 hotspots in most major U.S. retail chains, including Starbucks, McDonald's and Barnes & Noble bookstores. Verizon also has a Wi-Fi network, but it is much smaller. Wi-Fi is an important benefit to consumers because they can use it to get online when cellular networks are slow or weak.

<http://www.forbes.com>

## Industry Reports

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### Mobile Broadband: When is it Profitable?

January 27, 2010

Mobile data plans have started to evolve. U.S. mobile operators, under pressure from exploding traffic volume in their networks and grappling with network congestion, have recently announced new service pricing for voice and data.

Though it is still unclear what the net effect of the new pricing will be on subscribers, the new plans set an important departure in the approach to voice versus data service plans. Subscribers may be able to get cheaper voice, but data pricing shows no comparable decrease.

More importantly, operators have started to require that subscribers have a data plan with some device types-- mostly smartphones. Mobile operators seem to acknowledge that they can offer a better deal to their subscribers for voice services, which are substantially more profitable (with the exception of SMS, which on a per-bit basis may give an even better return than voice), but they have chosen not to extend this change to mobile data plans.

Why didn't data prices go down? Two reasons may explain the new approach to data. Mobile operators want data to become an integral part of subscribers' service plans. They are willing to charge less for voice, as long as subscribers pay on average more for data. This reflects a more balanced approach in splitting revenues between voice and data--with operators less willing to have voice subsidize data services. As data services become more mature and widely adopted, this is an approach that is no longer sustainable.

The second reason is that mobile operators cannot afford to lower data plans, as they may lead to a downward spiral in ARPU, at a time when they need to deal with an unprecedented growth in individual user traffic.

Initially the bulk of the growth in data traffic was generated by iPhone users, who now use more than 500 MB per month. With the introduction of new devices including Android-based smartphones and the higher number of applications, mobile data is rapidly becoming a mainstream consumer service. In the U.S., smartphones now represent over 30 percent of shipments and the percentage is likely to go further up. Traffic generated by these devices is also quickly catching up with that from iPhones. In Russia, mobile WiMAX operator Yota sees over 1 GB per month data traffic from subscribers using their HTC smartphone. For laptops, this figure is a staggering 13 GB per month. A large--and rapidly growing--portion of this traffic is video. This is what worries operators worldwide: with email and Internet access, traffic growth is bound by the limited requirements of the application; with video or even audio content takes little effort for subscribers to enter in the realm of the GB/month.

Mobile operators are delighted to see that their subscribers love mobile data services--and that are willing to pay for them--but at which point does the growing popularity of data and video affect profitability of the mobile data? It does not take long, as a quick back-of-the-envelope calculation that compared delivery costs and revenues on a per-MB basis.

The revenues per MB can be computed as a function of the monthly fees, for different levels of traffic. Revenues can be compared to the delivery cost per MB, which we estimate at \$0.015 for HSPA, \$0.005 for LTE and \$0.003 for WiMAX on the basis of our analysis of mobile operator and vendor data. The delivery cost per MB depends on many variables that are specific to different operators--and in particular on the network utilization level--and therefore are subject to variability. Our values are therefore only indicative and on the low end in comparison with other estimates we have come across. It has to be kept in mind that these estimates do not include costs such as customer acquisition and support, or network core operations, which are shared with voice.

At the current average traffic levels of 500 MB/month, revenues per MB outstrip delivery costs for HSPA, LTE and WiMAX, for ARPUs starting at \$20 per month. As traffic grows, however, the costs per MB rapidly exceed the revenues, especially when charging subscribers low fees. At a 50 percent CAGR, the 500 MB per month will reach 2.5 GB per month in five years. At \$20 per month, for instance, mobile operators operate at a loss for subscribers using more than 1 GB per month in an HSPA network, or for subscribers using more than 5 GB per month in an LTE network. At 10 GB per month, data subscribers do not generate any net benefit for mobile operators with HSPA. With LTE or WiMAX, revenues from 10 GB subscribers at best reach the delivery cost

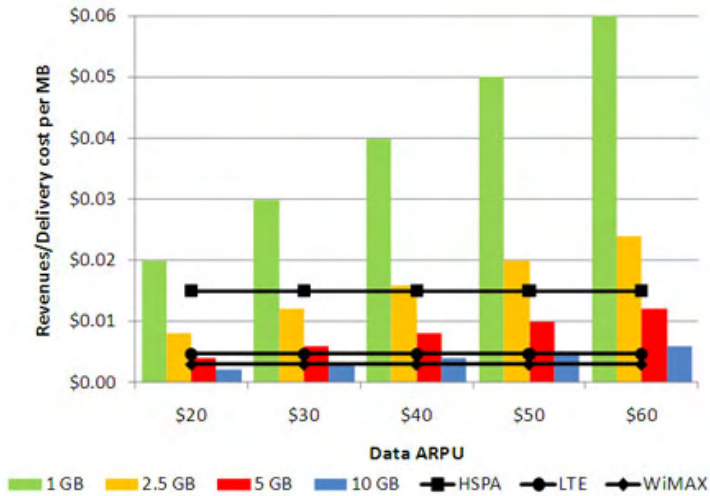
After being caught by surprise by the sudden growth in mobile data, mobile operators have started to realize that, to profit from it in the long term, they need to strike the right balance between pricing and traffic, and limit the scope of network expansion to increase capacity. If they raise the prices too much they risk losing subscribers. If traffic is too high, congestion and the need for expensive upgrades ensue--and profitability is threatened. If they spend too much on network expansion, they will hurt profit margins.

One solution that mobile operators have timidly started to mention is the introduction of traffic limitations. Subscribers have been grown accustomed to flat-rate unlimited services--for both data and voice--and it will be difficult to wean them off this type of plans. Unless strict--and likely to be highly unpopular--caps are introduced, they will only affect a small fraction of subscribers. For instance, on AT&T mobile network, 3 percent of subscribers use 40 percent of the bandwidth, according to the operator. Traffic caps may be useful in managing these 3 percent subscribers, but they miss large opportunities for improving traffic.

Increasing the efficiency of the network is crucial to manage traffic in ways that benefit both subscribers and mobile operators. Mobile operators no longer have to transport traffic through a passive, best-effort channel. They can use tools like quality-of-service and traffic prioritization, subscriber policies, compression, deep-packet inspection to give subscribers more control over their mobile online experience while increasing the perceived network capacity through to a more efficient use of resources. The rigidity of traffic cap can be avoided by using a more flexible approach in which traffic flows are actively managed depending on data and infrastructure requirements and operators data policies. And in the process, mobile operators can escape their dreaded fate as commodity providers, and leverage data management to differentiate their offering from competitors and extract more revenues from data services.

The tools to actively manage traffic are available today, yet their implementation is taking a long time. Mobile operators are rightly concerned about the reception

among subscribers who may see traffic management as a way to limit their freedom, while in fact it is more likely to result in a more fair use of network resources. Transparency and subscriber education of what managing traffic entails is going to be the next step for mobile operators to gain better control over data services and their profitability.



Revenues and delivery costs per MB , for different traffic levels. Source: Senza Fili Consulting

<http://www.fiercewireless.com>



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