This Week's Stories

Groupon Plunges Below IPO Price

November 23, 2011

Shares sank by more than 15% Wednesday to close at an all-time low of $16.97. That's several dollars below the $20 asking price of the coupon site's initial public offering earlier this month.

It's the third straight day of massive declines for Groupon (GRPN), with shares diving 10% on Monday and nearly 15% on Tuesday.

"The stock has been very weak this week, as investors have continuing concern about growing competition and Groupon's overall business fundamentals," said Ed Woo, analyst at Wedbush Securities.

Those fundamentals aren't pretty, and many analysts have been very critical of Groupon's business model -- or lack thereof. The company is losing money. Revenue growth is flat. High-profile executives have exited. Business owners have loudly complained that doing business with Groupon is unpleasant and not worthwhile. And the barriers to entry into the group coupon business are so low that Groupon needs to maintain an expensive marketing campaign to bring customers to its service instead of one of a dozen competitors.

If that weren't enough, since the moment Groupon filed its paperwork, it's been hit with criticism for unorthodox accounting measures. That led to several downward revisions of its financials, effectively cutting Groupon's reported sales in half, to $688 million for the first half of 2011, down from the $1.5 billion it claimed previously.

Despite strong negative sentiment about Groupon heading into its IPO, shares soared 30% above the $20 asking price on the stock's first day of trading, at one point topping $31 a share.

"Frankly, I'm surprised it did so well," Woo said. "Now, that negative sentiment is coming back as investors are focusing on the company's slowing growth and how it's losing a lot of money."

Amid a flurry of Internet IPOs, the market has started to cool.

Professional social network LinkedIn (LNKD) sank 4% Wednesday and is now trading at about half the value of its all-time high set in the summer, after the company announced it would hold a second stock offering. That's often an ominous signal, since it can be an indicator that the company is struggling to grow.

Small business review site Angie's List (ANGI) recently held its IPO, and shares tumbled 8% Wednesday. Shares of recently IPO-ed Pandora (P) plummeted 11% and Zillow (Z) fell by 1%.

The Internet IPO season isn't over. Yelp, another review service, announced its intentions last week to offer stock to the public in the near future.

But all eyes are pointed at social gaming company Zynga, which filed for an IPO in June and is lining up to begin trading soon. Zynga, which turned a profit of $31 million on sales of $829 million for the first nine months of this year, could get a massive valuation -- but looking at what's happening with Groupon, LinkedIn and its peers may give potential investors pause.

"Zynga is a different company with a different financial profile," said Woo. "But its valuation will take a hit because of the overall negative sentiment in the market."

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Microsoft Cuts Black Friday Prices on Kinect, Laptops, Games

November 24, 2011

Microsoft may be a relative newcomer to in-store retailing, but it's getting the hang of this Black Friday thing.

The computing giant, with 14 retail stores across the U.S., is diving into the post-Thanksgiving shopping madness with a slew of substantial new discounts on laptops, phones, software, games and its Kinect gaming system for the Xbox 360 console.

The sale begins online Friday at 12:01 a.m. PT, when most Microsoft stores will open, and lasts through Monday. Some of the deals are just available in stores, while others are offered only at Microsoft's online store.

Among them:
-- Sony S137GX notebook: $599, normally $999 (online only)
-- Samsung RC512 laptop running Windows 7: $499, normally $799
-- Acer Iconia Dual-Screen Touchbook: $599, normally $999

-- Xbox Ultimate Gaming Bundle, which includes accessories, a game and a 90-day Xbox Live membership: up to $200 off
-- Kinect Sensor Holiday Bundle, which includes three games: $100, normally $150 (not available online)
-- A free Windows Phone with a two-year service agreement (the site doesn't specify the carrier)
-- Office Home and Student suite of software: $120, normally $150

Microsoft also is cutting prices -- in many cases by half -- on such recent popular Xbox games as "Assassin's Creed Revelations," "Battlefield 3" and "Madden 2012." See its Facebook page for an entire list.

These discounts are much deeper than those announced Wednesday by rival Apple, which is trimming prices on iPads, iPods and Macs by less than 10%.

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Products & Services

LTE Suscribers to Hit 428 Million in 2016

November 22, 2011

Data from Juniper Research forecasts a rapid increase in LTE broadband technology within the next five years. Subscriber levels are to reach 428 million by 2016, but will only account for six percent of the global population, as the uptake will be limited to a number of large cities and only in certain countries. The majority of this growth is expected to occur from 2012 onwards, as various mobile operators are gearing up to realize their roll out targets for the LTE network. The research also points out that the rate of LTE network commitments was significantly higher as network vendors have jockeyed each other to offer products and solutions to network operators.

LTE is also expected to be dominated by consumer subscribers from 2013 onwards and will soon overtake business subscribers to LTE. This growth is fueled by the embedded LTE technology within mobile devices and the improved data speeds and service guarantees that are offered with the LTE network. LTE smartphones and tablets will come to dominate the user device market and will account for 50% of total LTE subscribers by 2016. LTE smartphones are expected to achieve the most notable early market traction in the business market, with consumers following suit as devices and network costs become more affordable.

www.goinglte.com

Netflix Will Lose Money for all of 2012

November 22, 2011

Netflix dropped a double bomb late Monday: The company now expects to lose money for all of 2012, and it is looking to raise cash in a secondary offering of its stock.

Netflix (NFLX) warned in its last earnings report that it expects to be unprofitable "for a few quarters" starting at the beginning of 2012. The primary culprit is Netflix's pricey plan to expand its streaming video service into the United Kingdom and Ireland, but a wave of subscribers jumping ship hasn't helped.

Monday's regulatory filing extended Netflix's "we're going to lose money" warning to the full 2012 fiscal year. Shares of Netflix closed 5.4% lower Tuesday.

The filing also revealed that Netflix is in the process of raising $400 million from investors to help bulk up its cash stash.

Netflix is selling 2.86 million shares at $70 apiece -- 6% below Monday's closing price -- to mutual funds and accounts managed by T. Rowe Price. That offering is scheduled to close around November 28.

It's also selling $200 million in convertible bonds to investment funds affiliated with Technology Crossover Ventures, a fund that has been investing in Netflix for more than a decade.

While that will give Netflix more money to invest in content, secondary offerings are sometimes considered ominous signs. They can signal that expenditures have outpaced expectations and that a company needs to raise more cash.

Netflix, which had $366 million in cash on hand at the end of last quarter, is facing threats from rivals with much deeper pockets. Studios are demanding more money for their valuable content, and the playing field is getting crowded. Beyond direct rivals like Hulu and kiosk service Redbox (owned by Coinstar (CSTR)), big tech players like Amazon (AMZN, Fortune 500) and Google (GOOG, Fortune 500) are jumping into the streaming game.

One analyst predicted earlier this year that Netflix's streaming content licensing costs will rise from $180 million in 2010 to a whopping $2 billion in 2012. Netflix said in its filing on Monday that it has payments of more than $3.5 billion due over the next few years to pay for content under contract.

Meanwhile, Netflix is losing some of those all-important licenses. In September, Starz ended contract renewal negotiations with Netflix and said it will pull its movies and TV shows from Netflix early next year.

That loss of content leaves angry customers asking why they're paying more for less. In July, subscribers were incensed after Netflix said it would begin charging separate prices for its DVDs-by-mail and streaming video plans. That amounted to a big price hike for Netflix customers, as the cheapest-possible bill for customers who want both services jumped from $10 to $16 a month.

As a result of the price hike anger, on September 15 Netflix was forced to cut its U.S. third-quarter subscriber estimates by 1 million customers, or about 4%, to 24 million. Shares plunged 19% that day.

But the real debacle came just three days later, on September 18. Netflix CEO Hastings announced that the company's movies-by-mail service would be rebranded as Qwikster, while the Netflix brand would be dedicated to streaming video.

Again, customers raged -- so much so that Netflix pulled a stunning reversal a few short weeks later and canceled the Qwikster plan. Many pundits and customers were shocked by the flip-flop move.

The subscriber ire is finally starting to cool. Cancellations "continued to steadily decline" in October and November, Netflix said in its filing this week. The company now expects its domestic streaming customer base to be flat in November and to resume "strongly positive" growth in December.

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Emerging Technology

Snake Robot Offers New Twist on Nuclear Cleanup

November 25, 2011

You could call it the humanoid robot's more curvacious cousin.

Slithering into confined spaces, tackling tasks too difficult or dangerous for humans, the Snake-arm robot can "reach the unreachable" say its UK inventors, OC Robotics.

Managing director Rob Buckingham and technical director Andrew Graham developed their first prototype in 2001 from their base in Bristol, England, and they've been perfecting the technology ever since.

Today, with clients in the nuclear sector and others queuing up for a demonstration, the hard work is beginning to pay off.

The technical challenge has been finding a way to channel energy into the snake-arm, Buckingham says.

"Just like the human arm, the big muscles that drive them are actually mounted on the back and tendons link the muscles to the joints," Buckingham said. "Basically, we've taken that principle to an extreme and use wire ropes as tendons and all the motors (actuators) that control the arm are at the base of the robot," he added.

Made of steel, these "wire ropes" transfer the actuators' mechanical power into the snake-arm, where a series of articulating links create a sinuous movement.
They can be made to various lengths, but the width is crucial to the robot's functional efficiency.

"Our rule of thumb is 30 to one (a length 30 times the diameter) is good for a robot that can do quite a lot of work," Buckingham said.

The arms themselves are delivery mechanisms, Buckingham says, for a range of tools which can be fitted to the tip.

Video cameras, lights, tack welding, cutting, gripping and swabbing gear are just a few of the tools OC Robotics has built, and all can be routed through the snake-arm's hollow core.

Both the arm and the tools are controlled by a human operator who uses nothing more complicated than a computer screen and a control pad borrowed from a video games console.

Test your skills on the Snake-Arm Simulator
"You're not removing the person completely, but they are working much more safely. That's what we've seen in the nuclear sector," Buckingham said.
In 2004, OC carried out a complex maintenance job on a reactor in Sweden and last year, it successfully inspected a reactor in Ontario, Canada.

"It's getting to the stage where our technology is quite mature," Buckingham said, "and we're looking for partners and customers who will actually grab hold of the opportunity."

His wishes may soon be granted.

Earlier this year the company demonstrated a 2.5 meter snake-arm fitted with swabbing, scooping and radiological probe tools to Sellafield, the UK's primary nuclear decommissioning company.

"I have to admit that when I went down to see it I was a lot more impressed than I expected to be," said Phil Reeve, head of strategy and technical for Sellafield's decommissioning directorate.

"We have places which ideally we don't want to put people into and we don't want to make big openings either -- we have situations where we want to know what is on the other side of a four-feet concrete wall," Reeve said.

"If we've got something that can go in and is sufficiently dextrous to maneuver around obstacles and can get out again then it potentially has some big advantages," he added.

The savings could run into millions of dollars, Reeve believes, but clearly there are more important things at stake.

"If we can reduce the number of times that somebody has to put on a plastic suit in hazardous environments then there's a huge benefit in that which goes beyond (money)," Reeve said.

Buckingham is hopeful the company can help with the cleanup operation at the stricken Fukushima Daiichi nuclear power plant in Japan. An offer has been made he says, but as yet, no reply has been received. In the meantime, other industrial partners are being sought. Aviation giants Airbus and Boeing are looking at how the technology might aid inspection of the confined spaces inside wings and fuselages during the manufacturing process.

Demonstrations have also been requested by both U.S. and UK government defense agencies into how the snake-arm could enhance remote vehicle inspection.

Doctors and patients may also be beneficiaries in the future too as OC Robotics works on a snake-arm which could one day perform natural orifice surgery. "Our prototype signals a direction of travel and is a milestone towards exploring a new surgical paradigm," Buckingham said.

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Mergers & Acquisitions

AT&T and T-Mobile Merger: Not Dead Yet

November 25, 2011

AT&T and T-Mobile hinted this Thanksgiving that their merger may be off, but the unpalatable repercussions of ending their eight-month pursuit of a deal suggests they may be playing a game of turkey.

Following an antitrust suit from the Department of Justice and a hearing on the merger called by the Federal Communications Commission this week, AT&T (T, Fortune 500) said Thursday it is no longer seeking approval for the merger from the FCC. The wireless giant then set aside $4 billion to cover the break-up fee it will owe Deutsche Telekom, T-Mobile's parent company.

If the marriage is not to be, the breakup would be painful for both companies. AT&T would have to pay T-Mobile's parent $3 billion and at least $1 billion worth of wireless spectrum, and it wouldn't gain access to the T-Mobile infrastructure that AT&T hoped to use to build out its next-generation wireless network. Meanwhile, the struggling T-Mobile would have to figure out a new way to stay afloat with a business that is losing revenue and customers in droves.

Emerging beaten-up from the called-off deal, AT&T and T-Mobile would find that the rest of the industry has grown stronger over the past eight months.

Verizon (VZ, Fortune 500) has expanded its market-leading 4G-LTE network to cover nearly 200 million Americans -- by far the largest next-generation network. Sprint (S, Fortune 500) is ahead of schedule in bringing its new 4G network online and it has begun selling the iPhone. Even regional carrier C Spire is now selling Apple's (AAPL, Fortune 500) iconic smartphone that was exclusive to AT&T nine months earlier.

That tough reality is why some experts believe it's too soon to call the deal dead.

"With the unrelenting scrutiny of the Department of Justice and the FCC, AT&T and Deutsche Telekom are now at the edge of a steep cliff," said Carrie MacGillivray, analyst at IDC. "Both parties need to make this deal work."

There are two ways it could ultimately be revived.

One potential way to get a deal done without angering regulators: AT&T could buy all of T-Mobile's network assets, and T-Mobile would become what's known as a "virtual network operator." Though AT&T would own all of T-Mobile's cell towers and spectrum, T-Mobile could sell service independently and essentially pay rent to AT&T to use their infrastructure.

AT&T would get the assets it was looking for in the first place, T-Mobile would only have to handle marketing and customer support, and Deutsche

Telekom would get a huge cash infusion. What's more, the antitrust issues would likely be alleviated, since T-Mobile could continue to operate as a separate company.

"At the core, the AT&T and T-Mobile merger is about network assets and subscriber base," MacGillivray said. "Perhaps this change of course by AT&T and Deutsche Telekom will indeed make for a solution that does benefit all."

Sometimes patience is a virtue -- one that could ultimately revive the AT&T and T-Mobile deal.

It may sound crazy, but there's precedent for it. In 1997, when Southwestern Bell Corp. first tried to buy AT&T, then-FCC Chairman Reed Hundt called the proposal "unthinkable" under antitrust laws. But that was under a Democratic president during a time when the government was willing to engage in antitrust fights, such as the one it picked with Microsoft (MSFT, Fortune 500).

Then, in 2005, under a Republican administration that was decidedly more lenient on the antitrust front, SBC's acquisition of AT&T went through. It's quite possible that changing political tides might allow an AT&T and T-Mobile deal to pass.

"They may make a second attempt under different conditions; these things do happen," said Jeff Kagan, an independent telecom analyst. "I don't think this is dead. They may just let it lie for a while."

Still, others believe the deal is kaput.

"While AT&T claims it's going to concentrate on the court battle with the DOJ, this deal is toast," said Josh King, general counsel at Avvo.com and former senior corporate development executive at AT&T Wireless. "AT&T should get out from under this failed deal as quickly as possible. It's a distraction that makes it harder to compete against a formidable Verizon."

The T-Mobile deal would have been nice for AT&T, but a plurality of analysts believe it was not critical for AT&T to get the deal done. AT&T's new 4G network launched several weeks ago, and although the company publicly stated that it needed T-Mobile's wireless spectrum to bring its 4G network to 97% of Americans, the company could purchase new spectrum in a looming government auction that might be able to help it achieve its goals.

T-Mobile, however, will have to pursue a different buyer if its deal with AT&T is truly dead. Though the carrier's parent company will have $4 billion to play with to potentially build out a competitive network, Deutsche Telekom has been trying to shed its money-losing U.S. asset for more than a year now to focus on its European business.

Sprint or a number of cable providers could be potential bidders, though analysts agree that the beaten-down company wouldn't get close to the $39 billion AT&T was offering.

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IPCom Threatens Injunction on HTC in Germany, but HTC Brushes it Off

November 25, 2011

The German courts have proven to be some of the most heated in the current rash of mobile patent suits, and here is one more case to cement that reputation even further: the patent-holding company IPCom says that it plans to execute an existing injunction on HTC to prohibit the company from selling devices as soon as it can—although HTC has already issued a statement dismissing the threat.

German patent owner IPCom says that its decided to enforce an injunction on HTC devices, which include both smartphones and tablets, running on both the Android OS and Windows Phone. The injunction order dates back from 2009 and IPCom today said it wanted it put into effect “in the shorted possible time”, according to a statement from the company (via Reuters). At the time IPCom had won the injunction but then the case went into appeals. HTC, however, withdrew its appeal this week, ahead of a decision next week.

Effectively, reading between the lines of that statement, HTC has withdrawn its appeal because there is no longer of the injunction getting enforced. Or that is their belief, at least.

This is just one of the many cases that IPCom has brought against smartphone vendors in the last several years.

IPCom also filed a similar case against HTC in the UK in June, and had also filed a similar case against Nokia (NYSE: NOK) years before. IPCom had won that hearing as well—although Nokia then ultimately got the decision in its favor in a court of appeals.

This is a crucial time of year to have devices on sale, so it’s likely that HTC would not be taking the risk of dropping its appeal if it had not had good reason to think it would be successful in getting the injunction thrown out. Next week should reveal the outcome more definitively.

The news comes in the same weeks that HTC has seen a setback in a patent case in the U.S. between Apple (NSDQ: AAPL) and S3 Graphics, a company it had been hoping to acquire for its patent portfolio, although now it is re-evaluating that buy. The company this week also issued a statement revising down its earnings forecasts for the next quarter to be flat. The two events have given the company's stock a knock, even though the company is currently the leading smartphone maker in some of the biggest markets in the world such as the U.S. and the UK.

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Industry Reports

Report: Apps Move to New Devices in 2012

November 22, 2011

Strategy Analytics says that 2012 will usher in the era of non-mobile apps, predicting that tablets, in-car systems and TVs will drive the trend.

According to the research firm, more than 30 billion apps were downloaded across various connected devices, which the company says is "validation that the app economy is real and here to stay, with more players entering the app space."

"Manufacturers, developers, and content owners recognize apps opportunities in bringing differentiated products to market while locking consumers into an ecosystem," wrote Josh Martin, director of apps research at strategy analytics. "As a result, in 2012, many companies will begin integrating apps with their devices while market leaders will seek ways for maintaining their edge in any way possible."

Martin makes three key predictions for 2012, which he says will have big consequences for the applications space. Martin says Apple will roll out carrier billing in emerging markets; Amazon and Nook app stores will account for more than 25 percent of Android downloads in the U.S.; and a car manufacturer will partner with Android for a dedicated automotive app market.

"The theme for 2012 will be new storefronts, new devices and new business models," Martin said in a statement.

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KS&R
Data to Knowledge
120 Madison St. 15th Floor
Syracuse, New York 13202
(315) 470-1350
1-888-8KSRINC