

From: Jim Patterson [mailto:jim.patterson@mobilesymmetry.com]
Sent: Monday, March 21, 2011 7:57 AM
To: 'Jim Patterson'; 'mobilesymmetry@gmail.com'
Subject: The Sunday Brief Monday Morning Special: Boy, Was I Wrong! - T/TMOB initial thoughts

To the Sunday Brief faithful –

Greetings from Las Vegas, where I am enjoying 4G speeds (4.1 Mbps clocked just minutes ago over my CNET bandwidth test) over my Sprint EVO hotspot.

Well, no sooner did I send this and AT&T answered a different question, which dealt with spectrum and 4G coverage for the masses. They also paid a hefty 7.1x OIBDA for T-Mobile USA and constructed a break-up fee so onerous that Sprint cannot touch it. And we lose the “cute girl in the pink dress” ads (no offense, but those ads make me laugh – Sprint’s recent ads are far too serious – bring back the [Sprint PCS Charo](#) ads!).

However, several of you asked for more thoughts, and, while I am usually hesitant to publish these without input from my editor (her name is Martha), here goes:

1. **Sprint is lone man out** on the iPhone after this transaction goes through. Forget the size differential for a moment (it’s critical to subsidy, so only a moment), but consider the myriad of iPhone ads we saw this weekend during the basketball games. Sprint cannot ride that wave without an iPhone deal. This is not a time to “Think Different” (the former Apple slogan). Mend the fence with Clearwire, and move on with a re-affiliation program that will allow fresh money to make regions as rich and robust as AT&T’s and Verizon’s. Sprint clearly has an opportunity to make this a winner, but needs to act quickly. Recommit to applications (especially fast apps, which you can compete with AT&T and Verizon because you have an excellent IP backbone). Rethink expansion with fresh money. Recommit to business markets (which hasn’t been present for some time). Make wholesale and M2M even higher priorities. The stakes went up, but it’s possible to compete.
2. **Private equity** really wins here. Substantial divestitures need to take place in many markets with the AT&T/ T-Mobile transaction, and terms couldn’t be better. Verizon is not going to slow down their 4G rollout. In fact, my guess is they might speed it up based on the HTC Thunderbolt’s success. Local markets can be very lucrative, and local ROICs with a low asset basis can make sense. Look to the reconstituted ALLTEL for clues to how successful this can be with the right management. If I had a few hundred million, I’d be lining up the spectrum overlap charts now (maybe take the local wireline properties as well and complete the full service provider equation!).
3. **Wireless net neutrality wins**, and Verizon loses slightly as a result. Since Google just lost a key partner with T-Mobile (although the Motorola Atrix has been selling well in the enterprise space), they will want something in return, and it’s net neutrality in wireless across all 4G (and 3G where feasible). Look for the net neutrality advocates to come out of the woodwork. Wireless net neutrality benefits some but not all of the apps providers (who, as we discussed in yesterday’s Brief, made a lot of money from their apps over the past five years).

4. **Verizon wins.** If I were at Verizon, I'd be smiling like the Cheshire cat. They have money, 4G mojo, and the iPhone. Sure, there's some net neutrality losses, but T-Mobile post-paid churn has to go somewhere, and it may as well go to the HTC Thunderbolt. Develop an in-store migration strategy for Android app migration (leverage that Google relationship), and you're there. The only question is 2011 smartphone parts availability.

5. **Where does this leave cable?** T-Mobile was a buyer of fiber to the cellsite Ethernet services from the cable companies. It's a lot harder to justify the Ohio, Chicago, or Miami buildouts with AT&T as the local provider. It definitely leads to more cable consolidation, but not before we see even greater gains in High Speed Internet and Voice (AT&T's multi-front battle gets strained when wireline must be supported). Cable must consolidate to compete, and they need a wireless play.

That's it for now. More on the shows in next Sunday's brief. See you there! And don't forget to sign up for [Mobile Symmetry!](#)

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From: Jim Patterson [mailto:jim.patterson@mobilesymmetry.com]
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Subject: The Sunday Brief: It's Trade Show Week - The Question That Should Be on Everyone's Mind



Greetings from Kansas City, where spring has arrived. With the new year comes the parade of trade shows, including the Consumer Electronics Show (Las Vegas - January) and the Mobile World Congress (Barcelona – February). There’s also the iPad2 announcement, which in and of itself was a one-day trade show. All this in the first 60 days of 2011.

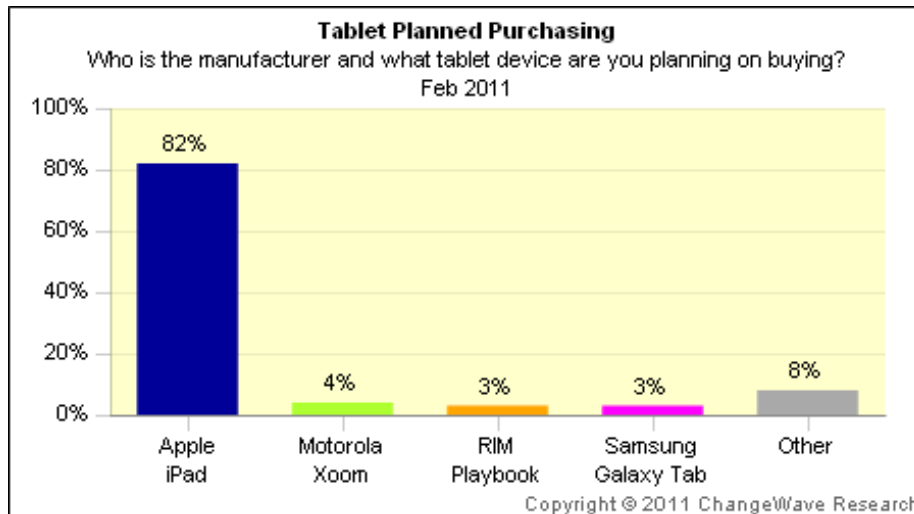
Now, to top these blockbusters, comes the CTIA show, as well as the COMPTTEL semi-annual convention. Two completely different venues (Las Vegas and Orlando), with COMPTTEL headlined by Internet pioneer Vint Cerf, and CTIA headlined by the top four wireless CEOs. Both venues are looking for growth, especially from business, driven by the new bandwidth consuming phones/ tablets/ devices that increase productivity and reduce costs.

At COMPTTEL, who is celebrating their 30th anniversary, the tone will be upbeat but cautious. The small business environment is coming back, but the product suite they are purchasing is quite different from the 2002/2003 recovery (when carrier-provided wireless data was just becoming mainstream). Voice over IP solutions are the norm, not the exception, and video solutions from Skype, Cisco and smaller providers like ooVoo are blossoming. Peter Sisson, CEO of [Toktumi](#), the parent company of the iPhone app sensation [Line2](#), May keynote at the fall COMPTTEL show. The incumbent carriers are getting smarter about their small business bundles, and at times the pricing bundle positions the wired business line cost as “free.”

Newer to the COMPTTEL scene are the cable companies, who have faster connections but in fewer places. While some cable companies are exhibiting (Charter, Time Warner Cable will each have an active booth presence in Las Vegas), their presence will continue to be dwarfed by the utility-based

metro carriers such as Edison Carrier Solutions (the metro fiber arm of So Cal Edison), and newer entrants such as Zayo. Until the cable companies realize the power of a united front in business, especially for the wholesale market, they will forever lose business in the “out state” regions of their service footprint. Ironically, while they will have a meaningful presence in the meeting rooms throughout hotels in Orlando, there are no cable business exhibitors at CTIA. Qwest, Verizon, AT&T, and CenturyLink (whose service area includes Orlando) will all be there.

CTIA is poorly placed in the convention and earnings timeline this year. The quarter is just about complete and all of the wireless carriers are in their quiet periods so they can say nothing about the questions that are on shareholders’ minds: a) The iPhone impact to Verizon and AT&T; b) Collateral damage from the launch of the iPhone to Sprint and T-Mobile postpaid churn; and c) Sprint and T-Mobile rumors (possibly including news about Clearwire in the process). So while we might get news about a wholesale LTE deal with LightSquared, or the fact that the HTC Thunderbolt is nearly sold out, the end-of-quarter positioning of this year’s show effectively limits the news flow. Fortunately, next year’s CTIA will be in May after all Q1 earnings have been released (and right before the iPhone 6 is released).



In addition, there will be new news about tablets, but nothing compared to a) [iPad2](#) (which benefits wi-fi providers disproportionately as the iPad2 loading was 75% wi-fi, 25% 3G with that being split between Verizon and AT&T); b) [Motorola’s Xoom](#) tablet which features Google’s Honeycomb operating system (announced at CES); and c) the [Samsung](#)

[Slider tablet](#) running Windows 7.

For one reality check on the tablet market, let’s consider the findings of Changewave Research. They polled 2,739 consumers and on the question of tablets, the following question was asked: Who is the manufacturer and what tablet device are you planning on buying? The main point is that 18% (one in five) chose something other than the iPad (note: this survey was completed before the iPad2 was even announced).

This is the “Most Want to Investigate” chart for tablets as of February. Less than 3% for HP and Microsoft, 7% Google, and 3% RIM. And of the 82%, it’s likely that 55-60% are interested in a solution that does not include a 3G (yesterday’s technology) or a 4G (not available technology) carrier data speeds. To modify the current ads: “If you don’t have an iPad, well, you don’t have an iPad.”

And Apple is aggressively locking up developer mindshare for applications to make the iPad even stronger. If you have an iPad, have a look at the National Geographic World Atlas and National Parks

application for the iPad and you will see what I mean. It's impacting MWI for Microsoft both on the desktop and mobile software solutions. The question now becomes "can Apple be stopped?"

In word, yes, at least theoretically. *Can AOL be stopped?* was the question we asked in 1999. *Can WorldCom be stopped?* in 2000. *Microsoft* has long been viewed as invincible. *Google* too. We'll go more into the topic next week, but Apple will be difficult to stop without a coalition of the willing. And that coalition can and should be assembled around the business market.

So the question that should be on everyone's mind is **"Can the telecommunications providers and their assembled coalition of the willing stop the giant value migration shift that is occurring to Apple through a business-focused product line that ushers in a new line of productivity?"** The reality check from the chart above is that Apple has created more than \$200 billion of value for its shareholders in the past 24 months. That's more than Verizon and AT&T have created since AT&T was broken up the early 1980s (excluding dividends).

The question that must be answered in conjunction to this is **"Can applications change the game?"** If you think that's not the case, let's consider three facts that came to light in 2011:

- a. Even if the markets are wildly wrong, [Facebook has created more value for their shareholders](#) since inception than the entire US wireless industry has in the past decade. The article highlighted in the link pegs FB's value at a cool \$76 billion, with a projection of \$135 billion in market cap by the end of 2015.
- b. Groupon is estimating that their IPO will raise \$25 billion, according to Friday reports from [Bloomberg](#) and the New York Times. While Groupon has a very good app, their communication with customers is primarily through email. Yes, our Deals of the Day are delivered through our Inboxes as opposed to text. Good old-fashioned local marketing meets the digital age (why didn't Roadrunner or Comcast come up with or at least fund this idea?). So technology helps, but value can be created from things other than networks.
- c. It took Twitter more than 3.5 years to accumulate its one billionth tweet, but [they now generate that much volume every week](#). If you are a telecommunications executive and cannot name Twitter's short code (40404), you should step down. Twitter drove the wireless "triple play" (voice + text + Internet), and video Tweets will drive 4G.

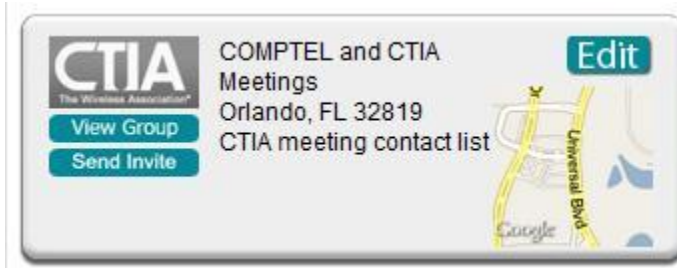
There are plenty of new things under the sun in the telecom industry. They reside in the network, marketing, and (most importantly) IT departments in Verizon, AT&T, Sprint, and T-Mobile. They are leaving in droves to discover greater sources of value, lured by the headlines above. The telecom industry is greyer than ever, and some of that is pre-mature. Both COMPTTEL and CTIA need an infusion of the App Generation. Without it, the value opportunities are limited.

Now for five you may have missed:

1. In a market moving fashion, [AT&T is implementing caps on DSL usage](#) (for all of those iPads they just sold). Comcast may not follow suit right away, but caps are a matter of when, not if.
2. Qwest and CenturyLink [had their merger approved by the FCC](#) on Friday.
3. The HTC Arrive, a Windows Mobile phone, officially went on sale for \$199 today at Sprint.com and \$129 at walmart.com. That's \$70 more than the HTC Shift which carries 4G speeds.

4. Beatbox Bill vs. Sinster Steve. [It's here.](#)
5. Finally, a look back on [a vintage Sunday Brief I wrote last May](#) that highlights one man at the crossroads of all the action (and who should be smiling): Ron Conway.

And one: If you are at either the CTIA or the COMPTEL shows, sign up for [Mobile Symmetry](#) and join our special contact group made just for the show! Here's the card:



Jim

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