

# THE VOICE OF BROADBAND

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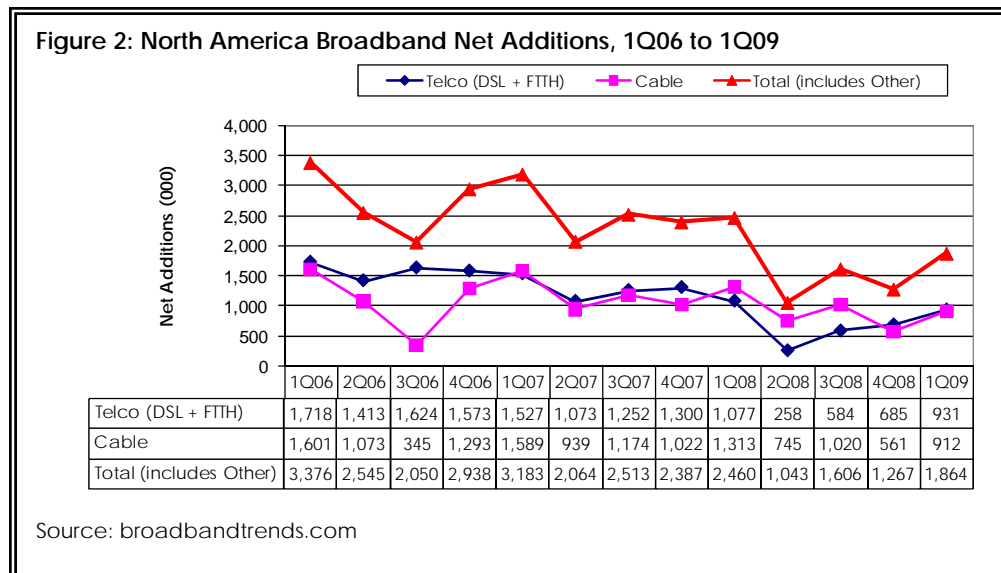
## Industry News

### Verizon sells 4.8 million rural access lines to Frontier Communications

On Wednesday May 13, 2009, Frontier Communications announced its plans to acquire nearly 4.8 million rural access lines in 14 states from Verizon in a transaction valued at \$8.6 billion. In what has been referred to as a "transformational transaction", Frontier Communications will become the 5th largest ILEC in the United States with just over 7 million access lines and 1.61 million broadband lines (including 110,000 FiOS Internet) across 27 states. The access lines, which are primarily the old GTE properties, provide Frontier will additional scale in 11 of its current serving areas and will add 3 additional states to its footprint. Frontier believes its focus as a "pure-play" rural operator will instill a level of confidence into its acquired customer base enabling Frontier to significantly grow its customer revenue through increased broadband penetration, bundled service packages, improved customer retention and new product offerings. In addition, Frontier also believes that its proven ability to integrate acquired properties will enable Frontier to avoid the many problems that have hindered other companies' acquisition of access lines in the past.

### North America Broadband Growth Better than Expected in 1Q09

Broadband proved resilient in an unfavorable economic environment, as net additions reached their highest levels in over four quarters at over 1.9 million with growth in all categories of broadband. Although Telcos outpaced cable operators for broadband subscribers, the difference was almost negligible as shown in the Figure below.



Other highlights for the quarter included the following:

- FTTH Subscribers have reached 3.53 million in 1Q09
- Cable VoBB Penetration is 46 percent of Cable Broadband Subscribers in 1Q09
- IPTV Subscribers are estimated at 1.97 million, AT&T represents 67% of total
- Broadband penetration is 62% of U.S. households, 72% of Canadian households

### **DSL Shipments Decline in All Regions as Operators Use of Excess Inventory**

Broadbandtrends recently published its quarterly DSL market share report for 1Q09. Shipments of DSL ports declined sharply in 1Q09, due to a number of factors including a broadband stimulus "pause", a stagnant economic environment as well as operator transitions towards Next Generation Access networks. During 1Q09, it appears that operators used excess inventory to add subscribers rather than invest in new equipment. This led to a quarter-over-quarter decline of 16 percent, with total ports reaching 19.0 million - the lowest level of DSL port shipments since 1Q05.

Huawei maintained and expanded its rolling 4-quarter market share lead over Alcatel-Lucent with 31.4 percent market share. Alcatel-Lucent had 28.5 percent while ZTE was third with 15.3 percent. Other report highlights included the following:

- Huawei is the market share leader in IP-DSLAM for both current and rolling 4-quarter
- Asia Pacific accounted for the largest percentage of total DSL ports in 1Q09 at 53 percent
- IP-DSL Ports represent 88 percent of total DSL ports in 1Q09
- Alcatel-Lucent leads VDSL market, followed by ZyXEL and Nokia Siemens in 1Q09
- MSAP platforms contributed 21 percent of total DSL ports in 1Q09, down from 27 percent in 4Q08

**Top Five DSL Vendors by Region, 1Q09**

Global	Asia Pacific	CALA	EMEA	North America
Huawei	Huawei	Alcatel-Lucent	Alcatel-Lucent	Alcatel-Lucent
Alcatel-Lucent	ZTE	Huawei	Huawei	Adtran
ZTE	Alcatel-Lucent	ZTE	Nokia Siemens	Calix
Nokia Siemens	Nokia Siemens	UTStarcom	Ericsson	Occam
Ericsson	ZyXEL	Zhone	ZTE	Zhone

Source: broadbandtrends.com

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### **European Parliament Delays EU Telecoms Reform amid net neutrality debate**

On May 6, 2009, the European Parliament endorsed the reform of the EU telecoms rules with one major exception, leading to a delay in possible approval until after the June elections. While the MEP voted in favor of most of the reforms, they do not want users' internet access to be restricted without a prior ruling by the courts, so they overturned an informal agreement reached with ministers, meaning the telecom package will be delayed.

The amendment is as follows:

*"that no restriction may be imposed on the fundamental rights and freedoms of end-users, without a prior ruling by the judicial authorities, notably in accordance with Article 11 of the Charter of Fundamental Rights of the European Union on freedom of expression and information, save when public security is threatened where the ruling may be subsequent."*

Next step is with the Council of Telecoms Ministers to decide whether or not to accept this package of reforms on June 12, 2009. They will have to decide on whether agreement on the package is still possible or whether the discussion will have to start again with the new European Parliament in autumn.

### **FCC Begins Work on National Broadband Plan**

On Wednesday April 8, 2009 the FCC issued its Notice of Inquiry (NOI), "A National Broadband Plan for Our Future", seeking input to inform the development of a national broadband plan. The focus of the plan is to enable the build-out and utilization of high-speed broadband infrastructure with the goal of enabling every American citizen and every American business access to robust broadband services. This National Broadband Plan is

required as part of the American Recovery and Reinvestment Act (ARRA) of 2009 and must be delivered to Congress by February 17, 2010. The NOI is allowing 60 days for comments and an additional 30 days for reply comments, leaving the Commission just seven months to develop a plan that will undoubtedly have a profound impact on the entire Telecommunications industry.

Based on the volume of requested input it seems unrealistic that the FCC could develop such an important piece of legislation in such a short period of time. Additionally, it seems impractical to develop a National Broadband Plan without the benefit of data collected by the Broadband Data Improvement Act (BDIA), which will not be available until early 2011. But perhaps the more relevant issue is the continuing lack of focus. Is the goal to increase *availability* of broadband or to increase the *usage and adoption* of broadband?

To read more become a subscriber to broadbandtrends continuous information service, or purchase the report: ***"FCC Begins Work on National Broadband Plan: Time to Think Outside the Box"***, which discusses what is necessary to make this successful. Contact us at [sales@broadbandtrends.com](mailto:sales@broadbandtrends.com).

### **Australia Changes Course on National Broadband Network**

On April 7, 2009, the Australian Government announced plans to develop a super-fast National Broadband Network through a public-private partnership. This announcement follows a failed effort to have a consortium build the National Broadband Network.

The Australian government announced that it would establish a new company that will invest up to \$43 billion (AUD) over 8 years to build and operate a National Broadband Network that will (1) connect 90 percent of all Australian homes, schools and workplaces with broadband services with speeds up to 100 megabits per second; (2) Connect all other premises in Australia with next generation wireless and satellite technologies that will deliver broadband speeds of 12 megabits per second; and (3) directly support up to 25,000 local jobs every year, on average, over the 8 year life of the project. It is the belief the government that nationwide access to next generation networks is vital for Australia's future economic prosperity.

According the government, there is not enough competition in Australia to drive investment and that previous policy (which favored the incumbent operator) has stifled investment by alternative operators over the last decade.

The government has specified that this NBN will be based on fiber-to-the-home and supplemented by next generation wireless (LTE) and next-generation satellite technology. The government will also commit funds to upgrade the backhaul networks to address any "black-spots". It also states that from July 1, 2010 all new estate developments will be required to install fiber optic networks to homes and workplaces.

Finally, and perhaps most importantly, the NBN will be a wholesale-only, open access network that is expected to drastically change the competitive environment in Australia. As such and to insure its success the Government will be reforming its current telecommunications policies.

## **Mergers, Acquisitions & Funding Review**

Acquisition activity has been accelerating over the last quarter and vendors and operators combine to close product gaps, enter new market segments and regions or perhaps more interestingly, at the advice and/or suggestion of a key customer.

Recent activity includes the following:

- Frontier Acquires 4.8M access Lines from Verizon (May 13, 2009)
- Ixia to Acquire Catapult Communications (May 11, 2009)
- Positron Acquires Aktino (May 11, 2009)
- Windstream Acquires D&E Communications (May 11, 2009)
- Carphone Warehouse Acquires Tiscali's UK Operations (May 8, 2009)
- Acme Packet Acquires Covergence (April 30, 2009)
- Beceem Adds \$20M in Financing (April 22, 2009)
- Conexant Sells Broadband Access Line to Ikanos (April 22, 2009)
- Move Networks Acquires Inuk Networks (April 22, 2009)
- Meru Networks Raises \$30M (April 20, 2009)
- Calient Networks Closes \$5M (April 16, 2009)
- Macrovision Acquires assets of Muze (April 15, 2009)
- Anevia Secures \$ 7 Million (April 8, 2009)
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Recently published research includes the following:

►**Research Note:** *"Frontier Communications Triples In Size with VZ Access Line Buy"*

Published May 13, 2009

►**Market Share:** *"DSL Shipments Decline in All Regions in 1Q09"*

Published May 12, 2009

►**Research Note:** *"North America Broadband Growth Better than Expected in 1Q09,"*

Published May 8, 2009

►**Market Outlook Report:** *"Global Fixed Broadband Subscribers to Reach 636m by 2014"*

Published April 17, 2009

►**Industry Perspective:** *"FCC Begins Work on National Broadband Plan"*

Published April 13, 2009

## **Next Issue: June 2, 2009**

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