

E911 deadline hits for US VoIP providers

> US VoIP providers have met the E911 compliance deadline with a change to their business plans and recognition that the technology has hit the mainstream.

At the end of November all VoIP providers operating in the US were required to submit an E911 compliance letter to the Federal Communications Commission (FCC), addressing the commission's subscriber notification and acknowledgement requirements.

Glenn Reynolds, VP federal regulatory at Bellsouth, said: "VoIP providers have begun to recognise that they have entered the mainstream. As the service has made the next leap into the mainstream the regulatory regime has caught up with it."

Bellsouth submitted a compliance plan to meet the deadline, even though it has yet to launch its VoIP offering. Reynolds said that Bellsouth has had to scale back its VoIP offering because of the E911 compliance requirement and phase in the release of its product. Although the FCC has repealed its threat to shut down operators that do not make themselves E911 compliant or acknowledge the limitations of their services, the FCC and VoIP operators are taking the recent deadline seriously.

Reynolds said: "The FCC will enforce the rules. Clearly they set a very aggressive timeline, I think they knew it was a very aggressive timeline. It shows how strongly they feel about the policy...The FCC will look at to what degree people have made a good effort to comply. I think this will drive the FCC's next move. Most of the industry made an effort in good faith to comply."

Peter Crann, VP marketing for VoIP operator Tata Systems, said: "There has been affirmative acknowledgement. In most cases, I don't think it has hurt business. There can be a big impact if VoIP operators decide to tango with the government or if they risk customer litigation. It could mean the end to your business. The FCC is not going to let up." ■

Analyst's Eye >



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US WIRELINE GETS THE JITTERS

DAVID BALLARINI LOOKS AT DEVELOPMENTS THAT HAVE HIGHLIGHTED SOME OF THE KEY CONCERNS AMONG THE US INVESTMENT COMMUNITY OVER THE STATE OF THE LOCAL WIRELINE SECTOR

> There were two recent events – Moody's downgrade of Verizon's debt rating and Alltel's spin-off of its wireline business – which brought to the forefront some of the key concerns that many US investors have for the state of the local wireline sector.

Given the decline in wireline access lines, coupled with the decline of pricing, minutes of use, and further coupled with the growing capital expenditure bill to upgrade wireline networks to compete for triple-play service offerings, many investors are questioning the long-term ability of traditional ILECs to compete for residential customers – both in major metropolitan areas as well as rural areas.

It was the dynamics of the wireline industry within Alltel's rural markets and Wall Street's pessimistic views of the long-term value of the local and long-distance wireline business, that led Alltel to spin off its highly leveraged wireline assets to Valor Communications in a \$9.1 billion deal and to focus instead on growing its extensive rural wireless business in the central and eastern US.

The wireless company emerges from the reshuffling of Alltel's business portfolio as a relatively low-debt (over \$4 billion of Alltel debt was assumed by Valor in the spin-off), very profitable and growing player in the rural wireless sector – a sector that continues to grow in the US, albeit at a declining growth rate.

It also goes to market as a pure-play asset with strategic value to the likes of Verizon Wireless and potentially other wireless carriers, who may well display significantly more interest in acquiring Alltel at a premium now that it no longer carries the burden of a wireline business.

Verizon continues to argue to investors that it can turn around the declining trend in its consumer wireline business through a bold strategy to deploy a massive local fibre network across many of its core regions and offer high-quality video programming bundled with up to 15Mb internet and enhanced voice services. But this strategy was dealt a strong sign of disapproval by Moody's, which downgraded Verizon, and cut its long-term credit rating to A3 from A2.

Moody's rationale behind the downgrade was that Verizon's triple-play plans require tens of billions of dollars to be invested, and this is a risky business plan which has questionable returns on investment. Based on estimates and analyst cost projections, Verizon will have spent \$3.2 billion on its local fibre network over the past two years. Moody's also sees Verizon taking on about \$3 billion more in debt next year as its merger with MCI goes through.

Moody's, like many other investors, is questioning whether or not Verizon might possibly be better suited to pursuing strategies that more effectively preserve near-term cash flow through strategies such as cost-cutting, sale of assets and limited capital expenditures.

Although Verizon and other US RBOCs may prove those bearish investors wrong in the long run by selling profitable and sticky services across unequalled next-generation local fibre networks, it appears that many investors and analysts alike are not prepared to reward the company's efforts until the fruits of their labours have emerged. ■