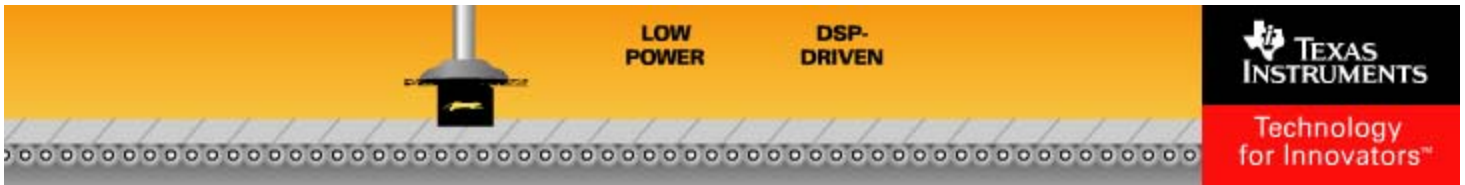


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Smaller Phone Companies Scratch the Video Itch

While Bells Make Noises, Smaller Telcos Quietly Gear Up IP Video Offerings

FEBRUARY 01, 2005

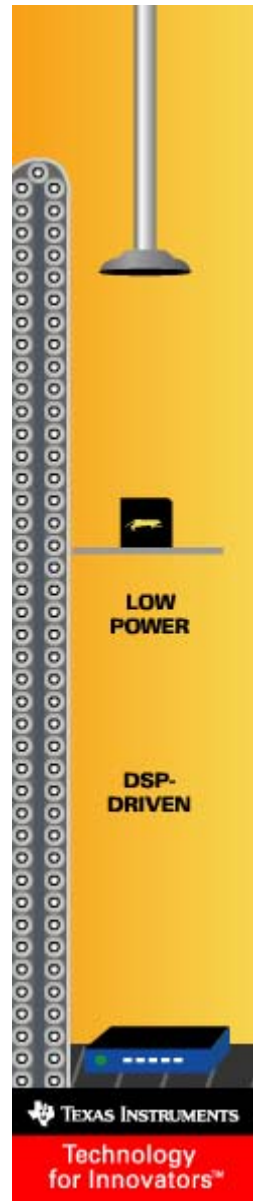
By Alan Breznick, editor, *Cable Digital News*

Although they dominate the headlines with their much ballyhooed fiber-to-the-home (FTTH) and fiber-to-the-network (FTTN) construction plans, the big regional Bells aren't the only U.S. phone companies delving into video these days.

Much more quietly, scores of smaller incumbent and alternative phone carriers are constructing their own all-fiber or mostly-fiber networks to deliver new services to their existing voice and data customers. Estimates are that these fiber-rich networks already pass as many as 1.5 million U.S. homes. With such networks in place, small and mid-sized phone companies are increasingly offering digital video services to subscribers or are gearing up to launch such video services in towns, villages and hamlets throughout the nation.

Indeed, several industry experts, tech vendors and consultants said many smaller phone companies are building FTTH networks to trump cable's own plant rebuilds and rollouts of triple-play bundles of video, voice and data. Speaking at the Society of Cable Telecommunications Engineers' (SCTE) Emerging Technologies (ET) conference in Huntington Beach, CA last month, James Farmer, CTO of Wave7 Optics Inc., cited market research statistics indicating that phone companies, municipalities, electrical cooperatives and other entities are now wiring 217 communities in 32 states with all-fiber lines.

Similarly, Geoff Burke, marketing director of video solutions for Calix, recently said that more than 100 phone carriers have deployed video services in a total of more than 200 communities throughout the nation. Speaking at the TelcoTV conference in Orlando in November, Burke said



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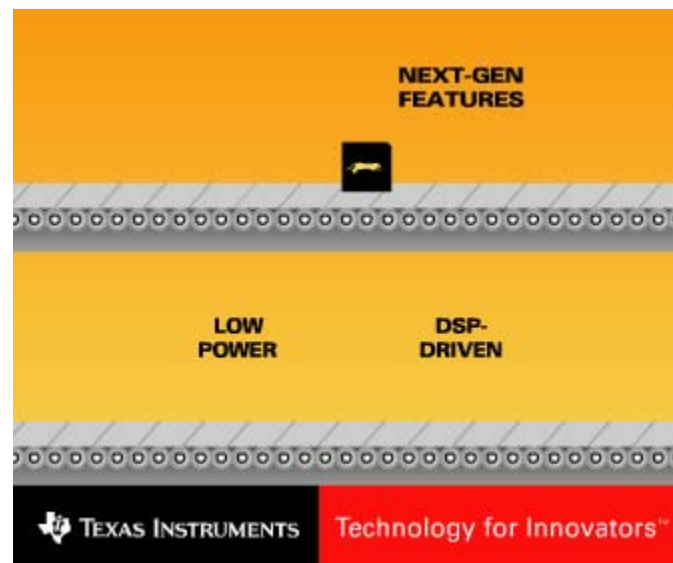
Calix alone has helped 26 telcos start offering video in the past year. He expects up to another 100 Calix customers to use his company's broadband access platform to expand into video in the next couple of years.

Likewise, Roger Shanafelt, vice president of worldwide sales and marketing for Myrio Corp., said 50 smaller, independent U.S. phone companies have now purchased his company's IP video software and services, including Cap Rock Telephone Corp. in Texas, Champagne Telephone Company in Ohio, Consolidated Communications in Illinois, FTTH Communications in Minnesota, Panhandle Telephone in Oklahoma and Valley Telephone in South Dakota. He said most customers either have begun deploying the IP video platform or are preparing to do so in the next 90 days.

"We expect a pretty dramatic take in 2005 and an acceleration into 2006 and beyond," Shanafelt said. "We're seeing a tremendous ramp-up here."

Consolidated, for instance, announced its deployment of Myrio's IP video infrastructure in mid-November. Ranked as the 15th largest local phone company in the U.S. with 250,000 access lines, Consolidated said it's relying on the platform to deliver a triple play bundle with advanced digital video services, including video-on-demand (VOD), to more than 50,000 voice customers in central Illinois.

"To build long-term equity with our subscribers, advanced IP video services is the next logical offering," said Tom White, director of network engineering at Consolidated. Besides such new video services as VOD, Consolidated is introducing a TV Web portal, which allows subscribers to access localized Web content through their TV sets by using their remote control devices.



Why are the smaller phone companies plunging into video now, after sitting on the sidelines for many years? Industry experts and tech vendors cite several reasons.

First of all, they say, smaller phone companies, like their much larger Bell counterparts, are worried about losing their core phone customers to increasingly aggressive cable and wireless rivals. At the same time, the towns and rural communities served by the small telcos are worried about the bigger cable and phone companies overlooking them.

Smaller communities are "extremely concerned about keeping and growing their revenue base," Farmer said. "It's an economic concern."

Second, the experts say, the small and midsized phone companies see a great opportunity to make their mark in video and create another promising revenue stream. Like the Bells once again, many smaller telcos have been craving that shot for a long time.

"It's a real convergence of fear and greed on the operator's side," Shanafelt said. "You could see it coming as operators experienced line and revenue loss." Plus, he noted, "they've milked the data play as much as they can."

Third, the experts say, the costs of building all-fiber and mostly-fiber lines and developing IP-based networks have dropped precipitously in the past few years. So it's no longer prohibitively expensive for smaller telcos to make the shift to video.

"We believe it actually costs less today to deploy an IP-based video system than an HFC-based video network," Shanafelt said. He noted that some carriers estimate they could upgrade their existing networks to deliver triple play bundles for as little as \$300 per home by adding more fiber and shortening their copper loops, as opposed to \$1,500 per home a few years back.

Referring to FTTH as "cable TV on steroids," Farmer said the all-fiber networks offer much greater bandwidth and data speeds than cable's existing HFC plant. He also noted that FTTH costs about the same amount as cable HFC plant to build but much less to run, largely because the fiber lines don't need signal amplifiers and other active RF components requiring frequent adjustment. "The maintenance and operation costs [of FTTH] are much lower," he said.

Finally, the experts say, the telecom investment drought of the past few years is becoming history. After pulling back their money for years, investors are finally willing to put funds in phone companies and telecom equipment suppliers again. "The telecom winter has now ended," Shanafelt said.

As a result, it looks as if the smaller phone companies, just like their Bell counterparts, are genuinely serious about video this time around. So look for greater video competition in the little markets as well as the big ones.

"There's some very real investment going on," Shanafelt said. "This time you'll see it's for real.... They're not messing around."

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