



Companies To Watch 2004





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Bill Burhop

*Executive Director, IMCC
IMCC Notes Columnist*

Selection: AML Wireless, Blonder Tongue, Multicom, 4COM, KTCOM, PDI, PACE



There are many companies that deserve mention as rising stars in 2004, I can't pick just one. That's great. I think the key to our future is that each sector of the industry has existing companies that are becoming more sophisticated and new companies that are forming. Sectors include manufacturers and vendors, PCOs and other types of service providers. As long as each sector increases in its competence and truly competes with franchised cable, then MDU management will have alternatives to choose from.

For instance, manufacturers such as AML Wireless and Blonder Tongue had to retool themselves to provide new products when the FCC screwed up microwave transmission. Multicom explores new product options all the time. Pace Electronics and PDI have had to figure out new methods to serve their clients as the DBS industry has changed. Several ISPs have restructured and are now viable high-speed data providers for PCOs and are adding video to their products. DirectTV is reorganizing to continue to lead that sector and better compete with DISH, HITS and the new VOOOM. Aggregators such as 4Com and KTCOM are helping their clients learn about new programming. I hear about new PCOs springing-up across the country and the existing companies must examine how to meet the consumer desire for HDTV, VoIP and more.

Only if each of these sectors meet the challenge of staying competitive will PCOs get the financing needed to build out MDU contracts and purchase products from the manufacturers/vendors and other types of providers. The hill will only get higher. In order to climb it each of these companies must con-

tinually retool and become more than they are today.

PCO Industry Will Rise Again will be an educational conference to help the leaders of these sectors move forward. It will be held in Atlanta in late March or late April—details are still in the works. If you plan to be a part of the future it starts now and this gathering will help you do that so your company will be a rising star in the future.



Greg Heifner

*Chief Executive Officer
Orbital Data Net, Inc.*

Guest Columnist

Selection: Telkonet, Inc.



Broadband Properties magazine was nice enough to ask my opinion as to the best technology and company to watch for in 2004. As they know I don't get out much and that my joy is to play with new technology, I was pleased to chime in.

But in considering this, I recognize that we are all working in an environment that is a little like surviving in the desert. All resources are being carefully scrutinized and squeezed for every last bit of moisture. Modern man can survive quite nicely though, because we can use technology to extend those resources. In our business, amenities are resources and hoarded as such. Technology delivers these amenities generally over twisted pair, cable and even sometimes wirelessly. Like the locusts, these technologies seem to swarm in a five-seven year interval. We use a multitude of technologies to drive zeros and ones through copper, glass and the air. It doesn't matter; in the long run we all can see our business model change fairly rapidly because some new widget caught on. This especially applies to the broadband Internet market, as we have all seen the various implementers of these technologies literally battle over turf. In my former life, I fought major battles over who owned the wiring in the walls of an apartment complex.



There is however a hidden domain. The one place where there is no battle over ownership, it is the property owners by absolutely everyone's account. It is the power distribution system in a commercial building. RBOC, cable operator, Internet operator... nope, nobody there. Yes, there is a persistent 60 cycle hum, but the twisted pair that DSL operates over is no day at the beach as far as noise either. Just think of the power lines in the wall as being large gauge twisted pair. The added advantage is that the properties power system is no doubt more "robust" than your telephone or cable system. If not, your problem as a property owner is not delivering broadband, but putting out spontaneous fires.

With the built-in encryption technology and interference rejection that these networks come standard with, standing up a broadband system can be a two-three hour event in many buildings. Residents love the idea that they have broadband access at every power outlet in their apartment. Wouldn't you? Hotels like the versatility these networks afford. Security companies we have worked with can use this system to interconnect IP cameras easily anywhere there is power present on the property. The list of potential uses is endless and best of all it is simple to setup.

Many different technologies can be employed to distribute broadband connectivity to a commercial building. Power Line Connectivity now provides a totally different method that we can use to service our clientele. I tend to like different because we get to write new rules, something our industry has thrived on. Few new technologies since wireless have taken such a radical and novel approach to broadband distribution networks.

While we are not trying to blow our own horn, we freely admit that we at Orbital Data have become excited enough about the potential of Power Line Connectivity to have become associates of Telkonet, Inc. of Annapolis Maryland (toot-toot). Money where your mouth is sort of thing for us, because we truly think this is cool technology. They have certainly developed this product set into a very usable package for any large building or campus of buildings at this early point. The development goes on and we are gleefully helping. I believe they will enable us to open up new and exciting markets. That is my reasons for recommending Telkonet, Inc. as the company to watch in 2004



Don Kent
President & CEO
eCablevision Consulting
Beyond Access Columnist
Selection: Insight
Communications



Insight Communications Corporation is a "Top Ten" national cable operator that enjoys a track record of taking calculated risks that pay off. Insight was one of the first multiple system operators (MSOs) to heavily invest in deploying VOD, and is aggressively deploying telephony, broadband, DVR, and HDTV services throughout its footprint. Insight has found that its VOD users' churn rates are 60% lower than non-VOD users, which is important as the company competes against Wide Open West, EchoStar, and DirecTV. Insight has always offered its broadband users 3 Mbps in download bandwidth—a strategy that is being adopted only very recently by other cable operators. Insight's total average monthly revenue per customer should exceed \$60.00 and the company projects that it will generate \$50 million dollars in free cash flow in 2004, which is a strong validation for the money that it has invested during the last several years in its infrastructure. Further, Insight projects double digit growth in both revenue and operational cash flow for 2004. Recognized as the "Cable Operator of the Year" in 2001 by Cablevision Magazine and in 2003 by Communications Technology, Insight Communications is known as an industry role model. During the twenty years since he co-founded the company, President and CEO Michael Willner has also played an important leadership role within the cable industry, including serving twice as the Chairman of the NCTA.





Dave McClure
President & CEO
USIIA
Washington Notebook Columnist
Selections: Microsoft Corporation and Verizon Communications

Microsoft Corporation

Beyond its role as the company people love to hate, Microsoft has been at the forefront of Internet trends and technologies from Personal Video Recorders to satellite communications. But what makes Microsoft watchable is not its dominance of business software and operating systems. It is the pilot programs the company is operating in the areas of digital entertainment and streaming media. To the north, Microsoft has teamed with Bell Canada to roll out sets of cable-style programming over DSL lines. And it is busy beefing up its Media Player platform to accommodate larger streaming media content that will form the basis of video on demand. Where this all may go, one can only speculate—Microsoft has in the past pushed into technologies that went nowhere. But its willingness to push the envelope—particularly in the broadband space—that makes them a company worth watching.

Verizon Communications, Inc.

Few companies can match Verizon for its deployment of innovative technologies or its leadership in broadband public policy. Verizon this year tested a new high-speed Internet service via cell phone in Washington, DC, and San Diego, then announced that it would expand that service nationwide. At the same time, the company has been aggressive both in the deployment of DSL services and its efforts to develop contractual relationships with broadband resellers. But it is in the policy arena that Verizon deserves attention for its leadership. Verizon led the industry battle against the ISP subpoenas filed by the Recording Industry Association of America, while simultaneously pushing for deregulation of broadband and VoIP, fighting to keep the Internet free of punitive state taxes and working to stem the flow of spam both for its customers and for other Internet providers.



Jason Marcheck
Principle
Confluence ResearchGroup
Fiber City Columnist
Selections: Quantum Bridge and Salira



Quantum Bridge

After Verizon and SBC announced that they both had signed agreements to make AFC and Alcatel their respective "preferred providers" for FTTH equipment, there seemed to be little drama left in the North American PON/FTTx market. I believe that this is far from the case. Although AFC made a splash in the headlines by winning Verizon's favor, the truth remains that its FTTH product offering is very much an untested commodity. Thus, if AFC's products cannot make the grade, Verizon's door could once again swing wide open. Given that with the company's acquisition of Marconi's relatively mature access network technologies, that is little reason to believe that they will not. As of early 2004, it remains uncertain whose products will finally end up in Verizon's FTTH networks. Even if Verizon and SBC stick with their originally chosen vendors, two RBOCs remain whose business is very much up for grabs.

This is the primary reason why Andover, MA-based Quantum Bridge (now a wholly owned subsidiary of Motorola) could be a company destined for greatness over the next two years. When Motorola bought Quantum Bridge, it was a clear signal that the wireless giant is in search of its next big thing, and that it is betting hard on last mile fiber (Note: Motorola hedged this bet by also buying VDSL vendor Next Level Communications). With the Motorola name, and the Motorola connections behind it, Quantum Bridge became an instant frontrunner in the derby to corral the FTTH business of an RBOC. Over the second half of 2003, Quantum Bridge was among the most active vendors in the market in terms of announcing new customers. Therefore, in addition to winning additional business from smaller ILECs and municipalities, the Motorola-backed Quantum Bridge should be in good position to compete for future RBOC business. So, when BellSouth, and eventually, Qwest (or the next incarnation of the RBOC previ-



ously known as US West), decide to pick a vendor for its' FTTH trials, there is little reason to believe that the Quantum Bridge will not be running nose to nose with the likes of Alcatel, and AFC for those contracts.

Salira



As those of us who watch the FTTx industry closely have come to learn, China could represent an untapped gold mine for equipment vendors making last mile fiber networking gear. With Japan's market leading PON deployments all but monopolized by hometown vendor Hitachi, China is an area that could offer significant opportunity for foreign manufacturers. One company that recognized this fact is Salira. In 2003, the Santa Clara, CA-based EPON vendor dedicated itself to making inroads into the Chinese market. In July 2003 the company's efforts paid off, which the announcement of its first Chinese customer. Throughout the second half of 2003, Salira was active in announcing customers throughout China.

China could represent a wealth of opportunity, particularly for Salira, for many reasons. First is the fact that the country's telecommunications infrastructure is very behind the times, especially for a country that has the goal of becoming an economic superpower in its sights. Second, like Japan, doing business in China requires an intimacy the way business is done in that country. This involves not only understanding the culture, but also having the proper connections in government offices. Given that fact that several of Salira's announcements have involved the rollout of last mile fiber to government buildings, it is a safe bet that the company has the attention of the right people. If China continues to modernize its telecommunications networks in 2004 at the pace that it did in 2003, Salira is sure to garner its fair share of headlines this year.



Bryan J. Rader
President
MediaWorks
Provider Perspective Columnist
Section: Vonage



The newest product introduction that is important for PCOs to pay attention to in 2004 is voice over Internet protocol (VOIP). This technology is quickly being adopted by many franchise cable companies both in test market and aggressive roll-out form.

One of the companies leading the charge in VOIP is Vonage, a young start-up with over 70,000 telephone subs in a short period of time. They have partnered with several franchise operators, as well as private cable and private broadband operators in our market segment, offering a private-label voice over IP telephone product available to any high-speed customer. They have taken the early lead in this rapidly growing market, and continue to be successful in forging new relationships. Companies such as Vonage can make a good addition to a PCOs platform of product offerings to remain competitive, unique and successful. Vonage is certainly worth watching in 2004.



Jimmy Schaeffler
Analyst
The Carmel Group
Trendsetting Columnist
Selection: DirecTV



2004: The Year of Rupert Murdoch

More than any year before it, 2004 will be "The Year of Rupert Murdoch" and the dealings of his companies: News Corp. [NYSE: NWS], Hughes [NYSE: HS]



and Fox [NYSE: Fox]. That is because, after six tries, Mr. Murdoch has finally placed the crown jewel in its place: He now controls a dominant U.S. Direct Broadcast Satellite (DBS) player, DirecTV, which is basking in the glory of almost 13 million subscribers and its place as the second largest U.S. multichannel pay TV provider. What a rush.

Murdoch has a lot of plans for 2004 and beyond. First and foremost, he must establish some major directives to begin mixing and matching the new acquisition with his other broadcast, publishing and content properties. Next he must establish a new core management at DirecTV, and decide upon the future for his other core former GM Hughes assets, Hughes Network Systems (HNS) and PanAmSat. Within DirecTV itself, three quick themes come to mind, all having to do with new advanced services: Interactive TV (iTV), High Definition TV (HDTV) and Digital Video Recorders (DVR). How much effort and what changes come to the areas of iTV, HDTV and DVRs, will have a lot to do with how sticky (or loyal) existing and future DirecTV customers are to the man from down under.

Yet, what will stand as the most interesting 2004 Rupert Murdoch play for most readers of this magazine will likely be what he decides to do with DirecTV (and HNS's new Spaceway product) relative to the U.S.'s unique Multiple Dwelling Unit (MDU) market place. It is The Carmel group's firm belief that others in the MDU video provider arena—such as Private Cable Operators, traditional cable operators, and rival DBS companies like EchoStar—will have much to concern themselves once a few of the cylinders from Murdoch's new MDU machine start to kick in. Our best guess is that he plans to tap this market because it is so relatively large and so relatively open to access to a multichannel provider like DirecTV. We expect Mr. Murdoch to entirely revamp and rebuild DirecTV's business plan and existing MDU management. The new DirecTV MDU team will include executives from News Corp., as well as some fresh faces, that will rewrite the MDU message.

Yet another seed that will be planted under the Murdoch regime within DirecTV will focus on Spaceway and how it can be used to bring broadband (and other content services) to all of America. Yet within this realm, there may be a special place and a special play for those of the MDU persuasion, as well.

What a great time to be Rupert Murdoch, and what a great time to be in the MDU biz!



Joel Schofield
Editor-in-Chief
Broadband Properties
Selection: HBO



I couldn't resist the awful play on words: Company to Watch. HBO. Get it? Ahem, let's move on.

The reason I selected HBO is because one day I realized that in our home our first experience with video-on-demand (VOD) came as result of wanting to see past episodes of *Curb Your Enthusiasm* on HBO. The service had been available for almost a year but we never really tried it despite a constant barrage of commercials, bill stuffers, et al from the cable company. Our first use of a personal video recorder (PVR) came from not wanting to miss the *Sopranos* one Sunday night. Now we are avid users of both technologies.

It struck me that cable and communications companies can roll-out great new technology after great new technology but whether that technology becomes an integral part of their customers experience is very much driven by the customers demand to see specific content that they place a premium value on. HBO may not be the driver for everyone. It could be Discovery, ESPN or any other network depending on a viewers taste, but the analogy remains the same. In this industry, the content drives the technology adoption and no amount of marketing will ever change that.

So, HBO is my Company to Watch in 2004. Almost as long as there has been a cable industry, HBO has been its programming leader and much of the industry's success over the next few years is directly tied to HBO's ability to create programming that will drive viewer demand. I wish them luck. We will all be watching.



Vern Sweden
Business Development
Pace
Executive Briefings Columnist
Selection: Multiband



Companies to watch? How about a company that creates consumer offers to Watch, Talk and Surf? This creates a small list of companies. One in specific... Multiband.

Multiband is in hyper-growth mode. After building a \$17 million infrastructure for single platform delivery of voice, video, and data to MDU's, Multiband is poised for dramatic growth this year. The base of subscribers has increased nearly 12 fold in the last 13 months to about 12,000 subscribers. Additionally, the firm's \$20 million + networking business insures that capital expenses remain low and technologies employed are cutting edge.

Based in Minneapolis, MN, Multiband has established networks running in a super regional area stretching from the Dakota's to Florida. Plans for both organic and acquisition based expansion are aggressive with a stated mission to become the largest private cable operator in the nation. The firm has already announced two acquisitions in 2004 and hints that more may be in the works.

Multiband's management team is well versed in both the engineering and dramatic growth components of operations. CEO Jim Mandel was the Chief Information Officer for Grand Casinos, Inc. from inception in 1991 to its sale to Park Place Entertainment in 1997. Grand built 11 casino/hotel properties and was Fortune magazine's fastest growing company in America in 1995. The firm went from zero to 20,000 employees in a six-year span. Mandel was in charge of all systems, software, software development, system construction, design, etc. The convergence of various networking applications necessary to operate a casino/hotel was the original idea behind Multiband's "Watch, Talk, and Surf" suite of services

Multiband's call center operates 7/24 in state of the art facilities. Management claims that the location of

the call center in Fargo, North Dakota mitigates the expense by as much as 30% thus allowing for its continuance in the United States as opposed to an outsourced facility overseas. The company is committed to the domestic expansion of the call center and has no plans to move it. In fact to accommodate peak periods during the ongoing expansion Multiband has contracted with Schwan's Enterprises in Marshall, Minnesota for "rollover" services. Schwan's is the second largest private company in Minnesota with over \$4 billion in annual revenues. The alliance is another indicator of forward thinking and supports the ability for rapid growth.

Experienced management, access to capital, twelve-fold growth, proprietary systems, proven technology, and gross profit margins, which are up 50%, make for an exciting recipe. This is truly a company to watch in 2004.

