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Avaya Bids \$475 Million for Enterprise Unit **Nortel on Auction Block; Products, Support in Limbo**

Avaya signed a “stalking horse” agreement establishing its intent to purchase Nortel’s enterprise solutions business for \$475 million, the companies announced July 20.

The announcement confirms earlier speculation that Avaya would pay nearly \$500 million for the enterprise unit [VR 7/2/09], and provides some clarity to many enterprise pros who have questioned the manufacturer’s future since it filed for bankruptcy protection in January [VR 1/29/09].

“We’re happy that Nortel has finally reached at least a tentative agreement,” says Victor Bohnert, executive director of the International Nortel Networks Users Association, which represents more than 4,000

See “Nortel,” continued on p. 4

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Also In This Issue ...

- ▶ Femtocells Coming Soon? 3
- ▶ Verizon Wireless Eases Exclusives 3
- ▶ Ericsson Wins Nortel CDMA/LTE Auction 5
- ▶ Full FCC Finally in Place 6

DAS Can be Free if Carrier Expects Revenue Boost

3 Options for Better Indoor Wireless Coverage

Your company just completed a “green” initiative and coated your building with special energy-conserving materials. They’ll keep heat and air conditioning in ... but cell phone reception out.

This is just one of the reasons enterprises are considering systems to amplify and distribute radio frequency signals indoors.

The \$4 billion to \$5 billion in-building wireless market has grown 20% year over year since 2006, according to ABI Research senior analyst Aditya Kaul. This year it’s expected to grow only 5% or 10%, however, because in-building wireless sales are tied to the real estate market, which is struggling, Kaul says.

But it’s a good time to start researching your options, even if you can’t spring for new investments right now.

Option 1: Get Signal from ‘Mini’ Cell Tower

Distributed antenna systems (DASs) are the traditional solution for amplifying and distributing cellular signals within enterprises with at least 150,000 square feet to cover. They’re available from suppliers such as

You Know You Need a DAS When ...

Some businesses rely heavily on cellular services but get poor signal reception in buildings — a situation they'd like to remedy.

You might need a DAS system if:

✓ Your end users have **dual-mode smart phones** that put out less signal power than traditional mobile phones to override noise, because they are conserving it for applications and battery life.

✓ Your enterprise is located in a city — like New York, Las Vegas, and, soon, Chicago — that **mandates building owners support indoor public safety signals** for emergency first responders.

✓ Your business is thinking ahead to **Long-Term Evolution (LTE) 4G wireless networks**, some of which will operate at higher frequencies (upward of 1 GHz), curtailing the distance a single cell tower can cover.

The reduced coverage of a single cell will further impede in-building signal penetration. ☎

ADC, Andrew, InnerWireless and MobileAccess Networks. DASs work in conjunction with a radio frequency signal source procured directly or indirectly from the carrier(s) whose licensed signals need boosting indoors [VR 11/20/08].

Getting that signal source can be one of the biggest hurdles of using a DAS. It takes an unpredictable amount of time for your carrier to evaluate your enterprise's situation and provide the signal source in the form of a base station, microcell or picocell (varying sizes of "mini" indoor cell towers).

Operators supply base stations, microcells or picocells for free or for partial or full cost, depending on the revenue bump the carrier expects in return.

A DAS engineered to boost signals from multiple carriers costs about \$1 per square foot, plus the cost of the indoor base station, estimates Kevin Swank, director of product marketing for Richardson, Texas-based InnerWireless.

A smaller emerging alternative, called a femtocell, can be installed out of the box and could become a competitor to DASs in smaller and midsized environments [see sidebar, p. 3]. Femtocells likely will run you between \$200 and \$300 apiece and can be scattered around the building for over-the-air communications much like a Wi-Fi access point.

Option 2: Smart Repeaters or Cellular Injectors Boost Signals

Other lower-cost equipment, such as a smart repeater or cellular injector, might be options. These devices rely on grabbing a signal from a nearby outdoor cell tower (the carrier's so-called "macro" network), then bring it indoors and distribute it either using the cabled DAS or, if the organization is small enough, directly over the indoor airwaves. These are only options if there's a cell tower close enough for the devices to pick up a signal.

Option 3: DAS Meets LAN

A DAS usually involves building separate cabling plant to carry radio frequency signals, which is a big part of its cost. However, this could be changing.

Cathy Zatloukal, CEO of Vienna, Va.-based MobileAccess Networks, says that her company's new EnCOVER VE allows enterprises to connect DAS antennas to existing wired or wireless LAN cabling infrastructures.

Enabling radio frequency signals to coexist with Ethernet or Wi-Fi signals on existing cabling plant (without eating into the bandwidth of the other networks) should cut up to 50% of the DAS costs, she estimates. The EnCOVER VE DAS is due to ship in the United States late in 2009; it's currently available in Europe, the Middle East and Asia.

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Other good news: Most of the leading DAS suppliers now offer broadband, multi-carrier products that preclude your having to install multiple DASs to support multiple carriers' signals, as well as Wi-Fi and other wireless network traffic.

"Our doctors are not too keen on wearing a belt of devices; they want one [converged] device," says Greg Johnson, CTO and director of technology and engineering services at Virginia Commonwealth University, in Richmond, Va. The university merged all its telemetry, paging, Wi-Fi and cellular traffic onto a multi-carrier InnerWireless DAS recently when it built its new Critical Care Hospital.

The institution funded the project itself – under \$1 million for a million square feet of wireless coverage, Johnson says – and is seeking grants to retrofit the older part of its hospital with the same capabilities.

For their part, the carriers have softened their stances on "sharing" DASs with their competitors in recent years, basically because they realize that there are chargeable minutes to be had if they do so.

In fact, carriers are starting to see the DAS as an indoor cellular revenue generator, says Michael Voellinger, senior VP of enterprise mobility at Pleasanton, Calif.-based telecom consultancy Telwares. They have taken to footing the bill for large DASs in exchange for the enterprise guaranteeing a certain number of minutes of usage during a specified time period. ☎

Small Carriers Get Devices after 6 Months Verizon Wireless Loosens Exclusive Deals

There's a glimmer of hope for enterprise telecom pros frustrated by exclusive device arrangements between wireless carriers and handset manufacturers.

Verizon Wireless will allow small wireless carriers to sell its exclusive handsets after it has sold them for six months, the carrier's CEO pledged in a letter to congressional leaders.

It's not the any-device-on-any-network scenario some voice pros crave, but it's a step in that direction.

Exclusive wireless device arrangements – like AT&T Mobility's iPhone deal – have come under fire from the Department of Justice, the FCC and Congress in recent weeks [VR 7/16/09]. The DOJ made headlines when it began an initial review to determine if U.S. telecom providers have abused their market power and engaged in anticompetitive practices.

Femtocells: Coming to an Enterprise Near You?

Femtocells (standalone 3G access points) have helped consumers boost wireless signals in their homes. But femtos could be the next wireless technology to bleed into the enterprise.

One femtocell can cover as many as four users in a given location across about 5,000 square feet of space. They're inexpensive (\$200 to \$300) and require no wireless expertise to install.

Early commercial femtocell-based enterprise services are expected in Europe this year, according to Keith Day, vice president of marketing for London-based Ubiquisys, a maker of enterprise femtocells. Day says Ubiquisys has sold business femtocells to a "major European operator group" that he can't name, but that he expects services from the operator in the fourth quarter. "We are engaged in the U.S. But there's nothing we can talk about yet," he adds.

Ubiquisys has connected its ZoneGate femtocell devices together into a grid to provide greater capacity for enterprise use. ZoneGate solves a common worry about multi-femtocell environments – interior-exterior interference management problems – with an adaptive system that changes its configuration dynamically to avoid interference, Day adds.

U.S. carriers are being noncommittal about enterprise femtocell plans.

"We see enterprise femtocells as replacement for repeaters, rather than for base stations," says Jim Erickson, director of in-building solutions at AT&T, which is currently in consumer femtocell trials. Erickson acknowledges that AT&T "probably won't be the first in the horserace to market" with enterprise femtocell services, "though we have acknowledged a clear need for it."

A spokesman for T-Mobile says the company "is not yet at the point where we are publicly commenting on plans for femtos. It's a solution we're looking at, but we have nothing to share at this time." ☎

Congressional leaders also took up the issue and pressured Verizon Wireless and AT&T Mobility to respond to allegations that exclusive deals stifle competition and innovation and put small carriers at a disadvantage.

Move Preempts Government Action

A group of 24 small wireless providers asked Verizon Wireless last February to eliminate its exclusive agreements with LG and Samsung, according to the letter Verizon Wireless CEO Lowell McAdam sent Rep. Rick Boucher, chairman of the U.S. House of Representatives Subcommittee on Communications, Technology and the Internet, and three other representatives.

Verizon agreed to fulfill their request and took its commitment a step further in the July 17 letter. It promised that small carriers – those with half a million customers or fewer – will be permitted to sell Verizon's exclusive devices after Verizon has sold them for six months. No handsets or manufacturers will be excluded.

Verizon Wireless buys hundreds of thousands or millions of handsets when it enters into an exclusive arrangement, which is risky because the device might not be a hit, McAdam explains.

“On the other hand, if the device does well in the market, six months is a reasonable time for us to earn the benefit of our risk and investment,” he writes.

Verizon's move isn't pure generosity, notes telecom attorney Kevin DiLallo, who specializes in wireless matters as a partner at Levine, Blaszak, Block & Boothby, in Washington, D.C.

“This reminds me of Verizon's open access announcement [VR 12/6/07] several years ago when the FCC was considering adopting broad-reaching open access rules in connection with the 700 MHz proceeding,” DiLallo says. “I think in both cases they were and are being proactive to address government's concerns so as to avoid being subject to any formal investigation or other action.” ☎

Nortel, continued from p. 1

individual Nortel users employed at more than 3,000 companies.

The Enterprise Solutions sale agreement is part of Nortel's strategy to sell off all of its business units. It finalized a deal with Ericsson for the CDMA and LTE portions of its carrier networking unit July 28 [see article, p. 5]. Nortel will be left with its Carrier VoIP and Applications Solutions division, Metro Ethernet Networks unit and LG-Nortel joint venture.

Assets, Shares Up for Grabs

The Avaya deal would include assets and shares of Nortel's North American, Caribbean, Latin American and Asia Enterprise Solutions business, and assets belonging to its Enterprise Solutions business in Europe, the Middle East and Africa.

Shares of Nortel Government Solutions and DiamondWare Ltd. also would be included.

“Today's agreements underscore the value of Enterprise Solutions and the investments we have made in enterprise telephony, unified communications and data networking core competencies,” Nortel CEO Mike Zafirovski says in a press release. “If successfully completed, this transaction will provide clarity on the path

forward for our enterprise customers, partners and employees, and enable the industry to continue to benefit from Nortel-created technology, know-how and leading-edge innovation.”

Nortel Proposes Sept. 11 Auction Date

The potential sale is subject to a competitive bidding process in which Avaya’s offer can be trumped by higher bids. Avaya also could increase its offer to beat out other bidders.

The stalking horse auction began with Nortel filing motions asking the U.S. and Canadian bankruptcy courts to oversee the bidding process. Hearings to determine bidding procedures will be held Aug. 4 in the U.S. Bankruptcy Court for the District of Delaware, according to court documents.

Nortel requested in its motion that bids for the Enterprise Solutions, Government Solutions and DiamondWare businesses be due by Sept. 4 and the auction held Sept. 11. But the courts still need to finalize the auction date and the rules of the auction.

The winning bid also would need court approval. Nortel says it expects to close the sale by the end of 2009.

Ericsson Wins Nortel’s CDMA/LTE Auction for \$1.13 Billion

Nortel entered into a sale agreement with Ericsson for its CDMA and LTE units after the Swedish system manufacturer submitted the winning bid of \$1.13 billion in Nortel’s June 24 auction.

The U.S. Bankruptcy Court for the District of Delaware and the Ontario Superior Court of Justice gave the deal their approval July 28. Nortel expects the sale to close later this year.

Nortel initially entered a sale agreement with Nokia Siemens Network for the CDMA business and LTE assets, establishing NSN as the “stalking horse” on June 19 [VR News Alert 6/22/09]. But NSN’s \$650 million offer was outbid.

MatlinPatterson, a \$9 billion global private equity franchise based in New York City, also saw its offer topped by Ericsson. The firm bid \$725 million for the CDMA business and LTE assets through its associate MPAM Wireless Inc. The Nortel investor holds 10% of Nortel’s debt and says in a statement it wanted to form a “New Nortel” by turning the CDMA business and LTE assets into an independent company.

MatlinPatterson also hinted in a press release that it will pursue other Nortel assets as they come up for auction. [See article, p. 1]

Ontario-based BlackBerry maker Research In Motion was prepared to bid \$1.1 billion in the CDMA/LTE auction but says Nortel blocked it from participating.

“RIM was told it could be qualified only if it promised not to submit offers for other Nortel assets for a period of one year,” RIM says press release. “In seeking to impose this condition, Nortel and its advisors were fully aware of RIM’s desire to purchase other Nortel assets as part of a solution to retain key portions of Nortel’s business under Canadian ownership.”

Nortel, meanwhile, says RIM was disqualified because it refused to sign a confidentiality agreement.

RIM asked the Canadian government to intervene in the spat. “RIM believes that the loss of Canadian ownership of Nortel’s CDMA and Long Term Evolution Access businesses may significantly, adversely affect national interests, with potential national security implications, and that the Government of Canada should review the situation closely.” ☎

Full FCC Finally in Place

Meredith Attwell Baker and Mignon Clyburn officially became FCC commissioners upon receiving Senate confirmation July 24.

The confirmation hearings for the two commissioners were the final step in seating a full five-commissioner FCC. The agency had been operating with fewer commissioners for months prior.

The Senate confirmed Julius Genachowski as FCC chairman and approved Robert McDowell to serve his second commissioner term June 25 [VR 7/2/09].

"With the full slate of commissioners on board, I look forward to working with all of my colleagues on policies that promote innovation, investment, competition and consumers," Genachowski wrote in statements congratulating Baker and Clyburn on their confirmations.

Baker formerly lead the National Telecommunications and Information Association. Clyburn is the daughter of House Majority Whip Rep. James Clyburn and served as commissioner for the South Carolina Public Service Commission.

The FCC's commissioners are appointed by the President and confirmed by the Senate for five-year terms, except when filling an unexpired term.

Only three commissioners may be members of the same political party. Genachowski, Clyburn and second-term commissioner Michael Copps comprise the FCC's Democratic ranks. McDowell and Baker are Republicans. ☎

Enterprises in Wait-and-See Mode

Nortel remains focused on maintaining service and product performance levels during the auction process, and it "absolutely" will continue to compete against Avaya in the meantime, says Wes Durow, Nortel's VP of enterprise global marketing and strategy, in the latest episode of *Telecom Junkies*. (www.telecomjunkies.com)

Nortel announced its CS 1000 Release 6.0 on July 7, and five new Office Communications Server-related products were announced July 14 in conjunction with Microsoft's Worldwide Partner Conference.

INNUA's Bohnert urges enterprises not to overreact to news of Avaya's bid. Sit tight until Nortel's future is settled, and make vendor selections based on the strength of the product if you're shopping right now.

Avaya's Initial Bid is Low

Avaya's \$475 million starting bid for Nortel's enterprise business seems low when compared to the \$8.2 billion paid by private equity firms Silver Lake and TPG Capital when they bought Avaya in 2007, notes telecom consultant Gary Audin, president of Delphi Inc., in Arlington, Va.

Audin estimates Nortel's enterprise unit is worth half or one-third the value of Avaya. The current bid is roughly one-seventeenth of Avaya's price tag.

The \$475 million bid is less than one-fifth of the \$2.4 billion the unit generated in revenue in 2008 (it lost \$75 million that year after expenses), according to Nortel's filings with the U.S. Securities and Exchange Commission. Revenue fell 8% between 2008 and 2007.

Nortel's Durow expects other bidders will emerge and the auction will be an active one.

Indeed, speculation runs high that MatlinPatterson, a New York City-based \$9 billion global private equity franchise, will make a bid. MatlinPatterson reportedly owns \$400 million (or 10%) of Nortel's debt and doesn't want to see the company sold at fire-sale prices.

Siemens, Alcatel-Lucent, Nokia Siemens and even Coppel, Texas-based Shared Technologies, a Nortel "Elite Advantage" channel partner, are among those reportedly interested in Nortel's enterprise unit.

'The Customers are the Base That They're Buying'

Whoever acquires Nortel will hope to profit from its enterprise customer base. Nortel shipped more than 8 million telephony lines last year and has an install base of more than 75 million lines, Durow says.

An acquisition by Avaya would give it a double-digit lead over Cisco. Avaya held 16.6% of the \$16 billion enterprise voice market in 2008, while Cisco held 14%, Siemens had 11.4% and Nortel 9.6%, according to Redwood City, Calif.-based Dell'Oro Group.

Besides being numerous, Nortel users are a loyal bunch. The majority of INNVA members have been Nortel customers for more than 10 years and 80% said they plan to continue with Nortel purchases and deployments in a survey taken after the company filed for bankruptcy, the association reports.

The question for the acquiring company will be how to persuade those Nortel users to stick around, instead of running to another competitor once the economy rebounds and pocketbooks reopen. Declaring systems "end of life" prematurely or ceasing to issue upgrades would rub many enterprises the wrong way, and they're realistic fears if Nortel's enterprise business is acquired by a competitor with redundant technology.

"Anybody that's going to spend hundreds of millions buying the Enterprise Solutions asset is not going to do that to disenfranchise the customers," Durow reassures. "The customers are the base that they're buying."

Avaya Could Offer Gentle Migration

Avaya CEO Kennedy says his company is committed to preserving the investments enterprises have made in Avaya and Nortel systems.

It's not all rhetoric, Audin says. Nortel users could integrate their Communication Server products with Avaya's Aura, which is designed to manage multi-vendor systems. The migration path doesn't have to be rip and replace because Avaya's Aura works with other vendors' SIP-based phones and gateways, he says.

You will, however, need an Aura session border controller to perform media conversion, Audin adds.

Avaya's Kennedy also stresses that he sees the acquisition as an opportunity to strengthen Avaya's product portfolio.

Nortel has especially strong product offerings for government agencies and health care organizations, plus a popular selection of solutions for small and medium businesses, Durow says.

Nortel's Business Communications Manager line and tight integration with Microsoft's Office Communications Server are among the elements Avaya might look to retain, Audin says.

Avaya also could compete with Cisco's end-to-end networking strategy if it were to acquire Nortel's LAN switch and router products, which it bought from Bay Networks in 1998, he adds.

Decision Time for Channel Partners

Avaya is interested in Nortel partly because it's looking to expand its channel partner network, Kennedy says. Bell Business Markets and BT Global Services, two large Nortel partners, are behind the move, saying in an Avaya press release they look forward to working with Avaya.

Avaya claims to have converted 120 former Nortel and Siemens channel partners worldwide into Avaya BusinessPartners since the beginning of 2009, and Avaya is aggressively wooing more with offers of fast-tracked training [VR 6/4/09].

Some channel partners could be eliminated after the acquisition, like in cases where Nortel and Avaya

Nortel Auction Kicks Off

Determine your enterprise's strategy as Nortel auctions off its Enterprise Solutions unit. Hear how Nortel expects the auction to go – and what it's doing in the meantime – on this episode hosted by **Voice Report's Jessica Gdowski** and sponsored by Avema.



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partners compete today in the same geographic territory, Audin says.

Nortel, meanwhile, is "culling" its channels and redirecting resources to those that deliver the most value to customers, Durow reports.

The availability of quality maintenance is top of mind for many enterprises, so INNUA's Bohnert says the association would work closely with Avaya on its support strategy.

Private Ownership Possible

Fresh leadership for Nortel might be a welcome change.

"The acquisition will allow the company to refocus its energy and resources on its solutions, and quiet concerns about the corporate structure that has beleaguered the company," INNUA says in a statement.

Several of the companies reportedly interested in Nortel's enterprise unit are private equity firms: MatlinPatterson is frequently mentioned alongside Silver Lake and TPG Capital, which own Avaya, and the Gores Group, which holds a majority share in Siemens.

Being privately held would relieve Nortel of the pressure that comes with quarterly public filings, INNUA's Bohnert says.

Private ownership allows a company to pursue a more long-term strategy, Audin agrees. But private equity groups like to trim down their investments and resell them for a profit, or else take them public, after a few years.

Silver Lake and TPG in particular could be interested in buying Nortel to boost Avaya's value, making it more attractive to resell or take public, Audin adds. ☎

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