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Verizon's Uphill Data Push

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Verizon Wireless says its fast data service is thriving, but some industry watchers say the vital signs are weak.

One thing seems clear: It can be hard to manage expectations when you are spending \$1 billion in a year on a new **Qualcomm** (QCOM)-developed technology that promises speedy, office-like Internet access over wireless broadband connections.

Verizon Wireless, jointly owned by **Verizon** (VZ) and **Vodafone** (VOD), has expanded its evolution data only, or EV-DO, network to more than 30 cities.

The company offers the service to laptop users for \$80 a month. Phone subscribers can add Verizon's V Cast service, which gives them handset access to tiny TV clips, music-on-demand and video games, for \$15 monthly.

But the bold new offering has been slow to catch on with consumers, say some industry analysts. Store checks show a healthy supply of EV-DO phones and antenna cards for laptops, but sales of the new service have been anemic, says Roger Entner, wireless analyst with Ovum, a tech strategy shop in Boston.

Part of the problem is that EV-DO phones sell for about \$200. "Typically you have to price handsets under \$100 to move real volumes," says Entner. And early reviews from phone users haven't been very encouraging. Some find the service expensive and the content boring.

Also reinforcing the notion that EV-DO is stumbling out of the gate, **RadioShack** (RSH) warned last month that its first-quarter numbers would be weak, due largely to a wireless shortfall. The retail chain, which sells Verizon Wireless and **Sprint** (FON) service, said contributors to the disappointment included a failure to meet expectations for EV-DO video-phone sales.

Then there's the WiFi challenge. Laptop users have gravitated to cheap, fast WiFi Net access at home, in offices and at various public hot spots. Observers question whether these people will find the greater mobility of EV-DO compelling enough to switch to the much pricier service.

But despite the challenges, Verizon Wireless says EV-DO has been a hit in the early going.

The Bedminster, N.J.-based company declined to provide any updated numbers, but people familiar with the EV-DO effort say subscriber additions and city upgrades are running "ahead of target."

According to an investor presentation the company made in late January, the EV-DO network was then available to 75 million people, and EV-DO subscribers totaled 75,000.

One insider, who asked not to be identified, says the company is stepping up its commitment to the new offering and is accelerating the network buildout. This person says that under the new plan, Verizon Wireless will reach by midyear its 2005-end goal of having the EV-DO network available to 150 million people.

Verizon Wireless hopes its lead in third-generation, or 3G, data offerings will give it an early advantage as rivals like **Cingular** -- a joint venture of **SBC Communications** (SBC) and **BellSouth** (BLS) -- and Sprint get ready to offer competing wireless broadband services.

For **Lucent Technologies** (LU) and **Nortel Networks** (NT) investors, Verizon Wireless' rush to market is reassuring news. The two EV-DO gearmakers are suppliers to Verizon Wireless, which has been a bright spot in an otherwise bleak list of telco customers busy with consolidation and rethinking expansion plans.

Verizon Wireless, which is the No. 2 cell-phone service in the U.S., is largely consumer-oriented and weak in the lucrative business-user segment. Part of the EV-DO strategy is to attract more business customers with the fast data offering, and perhaps gain a foothold on the larger wireless corporate calling market.

Continued wireless expansion is important to Verizon, which is vying with rival **Qwest Communications** (Q) to take over long-distance business services giant **MCI** (MCIP). That struggle has highlighted the slow-growth shortcomings of both Verizon and Qwest.

Still, analysts say despite its limitations, WiFi service is available where people need access. "People are in one of three places during the day -- home, work or on their way to one or the other," says Charter Equity Research analyst Ed Snyder. Between conventional connections and WiFi, most of those places are covered, says Snyder.

But a Verizon Wireless representative said the area covered by an EV-DO network in one city "serves more miles than all the WiFi hotspots nationwide."

Ovum's Entner says EV-DO will probably make a big splash in the market closer to the Christmas holiday season, when the top three shops -- Verizon Wireless, Sprint and Cingular -- go head-to-head with competing fast data offerings.

Charter's Snyder is a bit more pessimistic. He fears that EV-DO may end up DOA at this rate.

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