Qualcomm weighs FLO TV’s future

Not enough subscribers for live mobile television

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Friday, July 23, 2010 at 12:01 a.m.

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Qualcomm CEO Paul Jacobs says the company is debating the future of its FLO TV division.

Qualcomm is looking to sell or find a partner for its FLO TV mobile television business in the U.S., which launched about three years ago but has struggled to attract a critical mass of subscribers.

In a conference call Wednesday to discuss earnings, Chief Executive Paul Jacobs said Qualcomm is in discussions with several companies over the future direction of FLO TV. Jacobs said recently that Qualcomm has been disappointed with the performance of the FLO TV business domestically.

Jacobs said talks are in early stages. They center on understanding “things that different companies might be interested in relative to that business and relative to the spectrum that we own.”

Qualcomm officials said three options are on the table: selling the business, selling the spectrum or finding a partner. The company has long said it intended to spin off FLO TV eventually.

Qualcomm spent $683 million acquiring the wireless spectrum to run FLO TV. A couple of years ago, it predicted that it would invest $800 million in all — including spectrum, network build-out and
marketing costs — to get the network up and running.

The service offers about 20 channels of live mobile TV, including ESPN, ABC, Comedy Central and CNN. Coverage is not nationwide, but FLO TV is available in most major cities and several smaller ones, covering 68 million potential subscribers.

FLO TV powers the Verizon and AT&T mobile TV offerings for cell phones that contain a Qualcomm chip that enables the service. Qualcomm sells its own personal TV device for about $150 on Amazon.com. Subscriptions range from $10 to $15 a month.

Despite a full-court marketing blitz, including advertising as part of last year’s Super Bowl, FLO TV doesn’t have a large subscriber base, according to analysts. Qualcomm won’t release subscriber numbers.

Recently, the company has talked about other uses for the FLO TV network besides television. Qualcomm has said the network could potentially be used by publishers delivering electronic magazines and newspapers to mobile subscribers, for example. Qualcomm also is sponsoring a contest among software developers to come up with additional non-TV applications that would work on FLO TV network.

Qualcomm acquired the spectrum when broadcast television switched from analog to digital. The company thinks the spectrum has significant value as a way to ease data traffic that’s clogging existing 3G networks.

Arnab Chanda, an analyst with Roth Capital Partners in Newport Beach, said Qualcomm in the past has entered businesses it plans to spin off, with the goal of proving that a market exists.

That strategy has become harder in recent years as revenue from Qualcomm’s core wireless business has not grown as fast as some investors hoped.

“Qualcomm does a whole bunch of stuff that historically has not been revenue producing but was easy to do because they had such great growth,” Chanda said. “So they have a lot of stuff on their operating expense line that they could cut back on.”

Qualcomm may have proven what it wanted to with FLO TV: Video is an important thing to offer on cell phones, said Chanda. “They’ll probably make money on it,” he said. “Somebody will buy it.”

Mark McKechnie, an analyst with Gleacher & Co. in San Francisco, said there has been pressure on Qualcomm from some investors to back away from certain expensive investments.

“It has been a source of tension between Qualcomm and a select investor base,” McKechnie said. “It also could be an internal decision that, ‘Hey, this isn’t going to be as big a business as we thought it was going to be, and maybe it might be better run by someone who has more of a focus on it.’ ”

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