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SBC to substitute its VoB offering with AT&T's

Following the announcement of the **SBC-AT&T** proposed merger, it appears that the new company intends to develop VoIP by building on **AT&T's** start in this area. **AT&T** has been selling a consumer Voice-over-Broadband (VoB) service, called CallVantage. **SBC** on the other hand has been testing a consumer VoB offering, reselling the brandable VoIP service of **Deltathree**.

SBC pointed out that it would be using the **AT&T** VoIP product, CallVantage, because it is "further ahead" in development.

Prior to the merger talks, **SBC** had announced its proposed consumer VoB offering scheduled to start in 2005. However, the company is still in the process of developing such a product whereas **AT&T** already has an impressive VoIP product suite that includes IP VPN and unified communications. **AT&T** also has a web portal for customer self-service on all IP products.

Apart from the VoB offering, **SBC** is working on a \$4 billion 'Project Light Speed' aimed at providing 18 million households with services like VoIP, IP TV and ultra-fast Internet access by 2007. Project Light Speed will be IP based. **SBC** expects that within three years, there will be high penetration of VoIP among the existing subscribers of **SBC** and **AT&T** in the US.

SBC will be using **AT&T's** robust IP

backbone, to start moving video and high-speed data to more than 18 million households as part of this project. According to **SBC**, the kind of IP backbone capacity that **AT&T** brings is one of the best aspects of the deal given its significant savings, synergies and time to market advantages. According to **SBC**, the **ATT** IP backbone will accelerate the company's opportunities with its Project Light Speed and allow the company to hit the market quickly with VoIP.

ATT's sale to **SBC** announced on January 31st 2005 will end 100 years of independence for **AT&T**, which had been forced by federal antitrust regulators to break up its operations in 1984. The acquisition of **AT&T**, which may take until mid-2006 to clear regulatory scrutiny, was rumored for quite some time given the company's declining business over the past few years.

AT&T revenues at \$50 billion in 1999 had plummeted to \$30.5 billion in 2004. The steady slide had seen the company lose much of its residential customer base from a peak of 60 million to about 24 million at the end of last year. **AT&T's** decline has been attributed to the company's overpriced spree of acquisitions in the cable-TV industry, and the declining margins in long-distance telephony.

Up to 1996, long distance telephony was indeed a cash cow. If we look at the revenue split of monopoly service providers in Europe, for

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SBC Contd.

instance, their International long distance revenues alone were in the region of 30 percent of their overall business.

But, then came international resale, callback, and VoIP, which put a lot of competitive pressure on the incumbents. Email also became a potential substitute for high cost international calls. The increasing bypass of the International Settlement Rate system – whereby two international carriers would settle at a mutually agreed call rate – resulted in reduction in overall revenues and margins. All of these developments contributed to the declining business prospects of long distance service providers such as **AT&T**.

Although the company adopted VoIP somewhat, it regarded the new technology more of a threat than

an opportunity, since according to **AT&T** it would amount to cannibalizing its own revenues.

Among all toll bypass technologies (international resale, callback, and VoIP), it is VoIP that has established itself by aggressively making its way into long distance and local networks. VoIP played a persistent role in making the distance of call delivery irrelevant.

In the face of declining long distance revenues, **AT&T** turned to the local market which it had exited in 1984. However, after being confined to the long distance market for such a long time, **ATT** experienced difficulties in re-entering its previous domain. Twelve years of RBOC time-to-market advantages took its toll and **AT&T** failed to make a significant dent in the local market.

Bridgeport announces alliance for mobile VoIP

Bridgeport has announced an alliance program to add mobility to fixed VoIP telephony services, using a single subscriber phone number identity. The alliance, MobileIGNITE (Mobile Integrated Go-to-Market Network IP Telephony Experience) is mainly about helping service providers to rapidly deploy mobile VoIP convergence services.

One of the publicly announced implementations of MobileIgnite solution, a turnkey interoperable solution, is **Bell Canada**, which is conducting trials with NomadicONE, **Bridgeport**'s core product. NomadicONE network convergence gateway is a key element in the program and carries out signaling, bridging, call control, authentication and billing between SIP based network and mobile phone environment.

MobileIgnite offers an end-to-end solution comprising **Bridgeport** network convergence gateway and a

number of alliance partner products and solutions (see table on page 5 below) that are being pre-tested and integrated by the vendors in the alliance.

The turnkey solution enables mobile phone calls and services over WiFi phones or cellular phones that also support WiFi. It also delivers cellular phone calls to IP PBXs, IP phones, and analog telephone adapters (ATA) connected to broadband networks without going through the circuit switch, connecting them directly as IP calls into the core of the mobile network. Broadband providers that are typically offering fixed VoIP services can expand their reach to mobile networks by adding mobility to VoIP phone number using the solution from the MobileIgnite alliance.

The ecosystem of the alliance is comprised of various partners like **IBM**, **AirSpace**, **Verisign** and **Bridgeport**. The role of each of these vendors or the technologies that each of these alliance partners brings to this ecosystem is interoperability.

Taming the open Internet for voice

The first version of VoIP that users saw in the mid-nineties was voice over public Internet. Since bandwidth could not be controlled end-to-end over the public Internet, voice quality suffered. Companies involved in the VoIP business pointed out that bandwidth would become ubiquitous in the future making the issue of voice quality less significant. That has turned out to be partially true.

Voice compression techniques have improved since the mid-nineties resulting in more bandwidth efficiency. At the same time, due to the dotcom meltdown, sufficient bandwidth has been left over in the public Internet for the use of voice. The industry had predicted, and invested accordingly in bandwidth, for a significant growth in e-commerce. The scale of growth did not meet the expectations leaving a residual data transmission capacity in the backbone networks of IP carriers. At the edge, broadband has taken over from PSTN dial-up as a predominant access technology. All these developments have resulted in a better user experience of VoIP in terms of call quality.

Long distance VoIP carriers including **ITXC** (now part of **Teleglobe**) and **iBasis** have also contributed towards an efficient transmission of voice over the public Internet. Their primary motivation in using the public Internet has been to avoid high rentals for international private leased circuits. These leading VoIP traffic wholesalers developed in-house algorithms that could statistically select optimum routes for routing voice.

While the early entrants like **ITXC** and **iBasis** had to develop such solutions in-house, the call routing technology has evolved much since the mid-nineties. For instance, when interconnecting carrier partners have agreements in place, a Session Border Controller can ensure QoS end-to-end. For those looking to use the public Internet, there are voice optimized connectivity solutions available.

Atlanta based call routing vendor **Internap** has attempted to overcome the call routing issue by adding software modules that plug into

customer networks to monitor WAN connections. The solution is effective to the extent that even **Teleglobe** and **iBasis** (companies that had developed similar solutions in-house) have outsourced call routing, at transmission level, to **Internap**.

The software modules of companies like **Internap** plug into corporate networks as add-ons for Border Gateway Protocol (BGP) routers, sharing routing information with customer-edge and service-provider routers. The module decides, based on policies set by users, which of the multiple WAN links to use. The policies take into account factors such as delay, jitter, packet loss, time of the day and cost of service.

Internap's typical deployments in a particular region bring in every major IP carrier that is available in that region and run intelligent route control on top of those carrier networks. As such, customers get a guaranteed best route available for any destination where they are attempting to send traffic. With reference to voice, **Internap** applies its techniques on the IP portion of the voice call to ensure that certain call quality matrices such as MOS (Mean Opinion Score) greater than 3.6 are able to be met by the underlying IP network. A MOS score can range from 1 (bad) to 5 (excellent), while a score of 4 is considered toll quality.

Internap currently serves seventeen VoIP service provider customers including **Vonage**, **Broadvoice**, **iBasis** and **Teleglobe**. The company has a total of 1900 enterprise customers although few use **Internap** call routing technology for voice.

The challenge in the enterprise world - as compared to the service provider environment - is to move the traffic off the private infrastructure onto the converged IP pipe over the public Internet. The challenge there is that carriers have been successful in selling MPLS type offerings to enterprise. IT managers are reluctant to move their traffic over the public Internet today and are content using private line Frame Relay and MPLS technology. As quality concerns begin to be addressed

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by technologies such as **Internap's**, enterprises may be more willing to move their traffic to public Internet.

Improvements in call routing technology will result in increasing use of the public Internet by carriers

as well as enterprises for their communications traffic. Not only will the users experience lower operating expenditures, but the developments also have implications for softswitch and other allied vendors in VoIP as they would be expected to incorporate such solutions into their products.

Interwise records 100 million conferencing minutes

Interwise, a major player in enterprise conferencing, reported that its worldwide customers collaborated for over 100 million minutes of enterprise-wide VoIP conferencing during 2004. **Interwise** has nine years of experience in VoIP conferencing and its product provides a single platform for live collaboration, communications and distance learning.

The vendor has customers in 20 countries. Its products and services are being used by more than 1.2 million users in 250 companies.

Interwise believes that with a paradigm shift to a knowledge based economy around the world and growing need for collaboration and conferencing, the demand for enterprise conferencing has shown substantial growth.

According to the company, the value of conferencing applications has proven itself, and companies are buying the solution for everyone as opposed to just buying it in small packets in different departments. If customers need the solution to be deployed on a hosted basis, **Interwise** has arrangements with carriers around the world who have networks of IP gateways.

With its upward trend of VoIP minutes, the company saw its hosted customers use 7.2 million minutes in the month of January 2005. Overall, 60% of the customers are hosted and

the rest are onsite.

Interwise's ECP Connect conferencing solution is a SIP based enterprise class conferencing platform that supports web meetings, eLearning, online seminars, webcasts, on-demand recordings, and traditional voice-only conferencing. The solution can be integrated with applications, including Learning Management Software (LMS) applications used by human resource and training departments, IBM's Websphere, Microsoft Outlook, and Lotus Notes. ECP Connect has application programming interfaces (APIs) that enable it to connect to other applications and/or web services.

The solution works with dial-up Internet access and is optimized for use on 56K dial-up lines. One of the reasons why several enterprise customers choose **Interwise** is that bandwidth usage is much lower compared to other similar products.

Interwise customers include **Siemens, Nestle, IAG, Nissan, Schindler Halliburton Damovo, and Metso. Metso Corporation**, a global supplier of process industry machinery, systems and services is rolling out **Interwise** software integrated with Lotus Notes to all employees in more than 50 countries.

Interwise is a privately held company. Investors include **Lazard Technology Partners, CIBC, UBS Capital, GE Capital, JP Morgan, Leeds Weld, NTT, and SAP AG.** **Interwise** has had four rounds of funding. It raised \$30 million in 2000 and another \$12 million internal financing round in 2002.

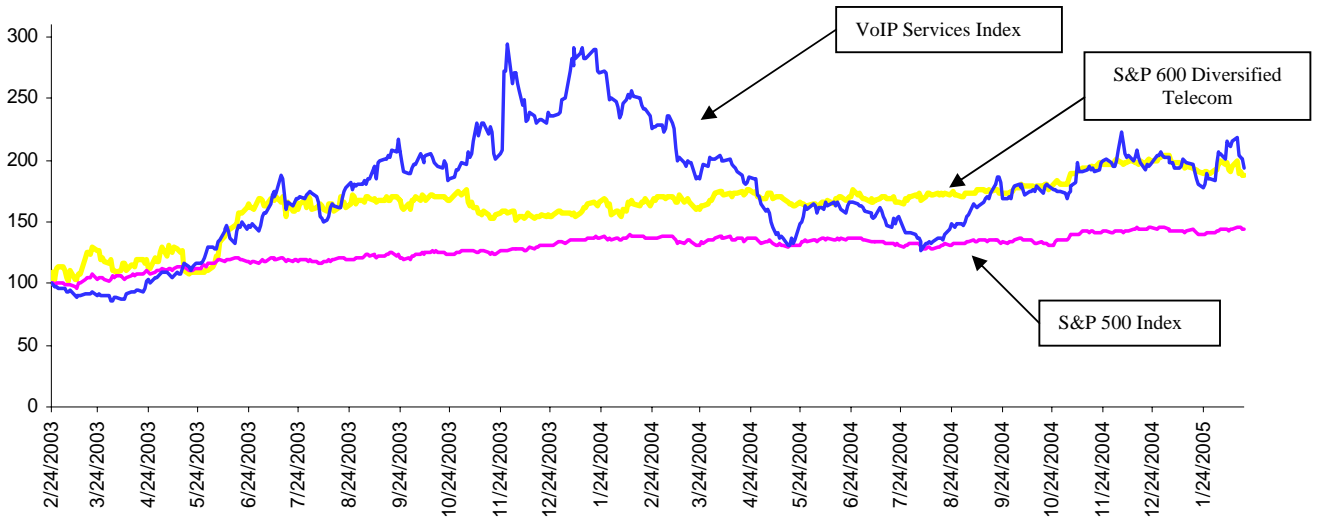
(Bridgeport Contd ...) Partners in MobileIGNITE

Partner	Product	Description
BridgePort	NomadicONE	NomadicONE is network convergence gateway software that offers Mobile VoIP convergence solution for the Alliance. It does signaling, bridging, call control authentication and billing between SIP based environment and mobile phone environment.
IBM	eServer	Bridgeport software used in this alliance solution runs on these eServers's from IBM.
Airspace	WLAN / WiFi	Airspace WiFi system manages Voice over WiFi deployments for the alliance.
Verisign	SS7 backbone	Verisign supports roaming between cellular and WiFi networks for the alliance by using their SS7 backbone
Sylanro	IP Centrex	Sylanro will bring in IP Centrex platform to the MobileIgnite alliance.
Tekelec	Media gateway	Tekelec will bring in their Media gateways to the alliance.
PCTel	Client software	PCTel makes client software for windows mobile PDA.

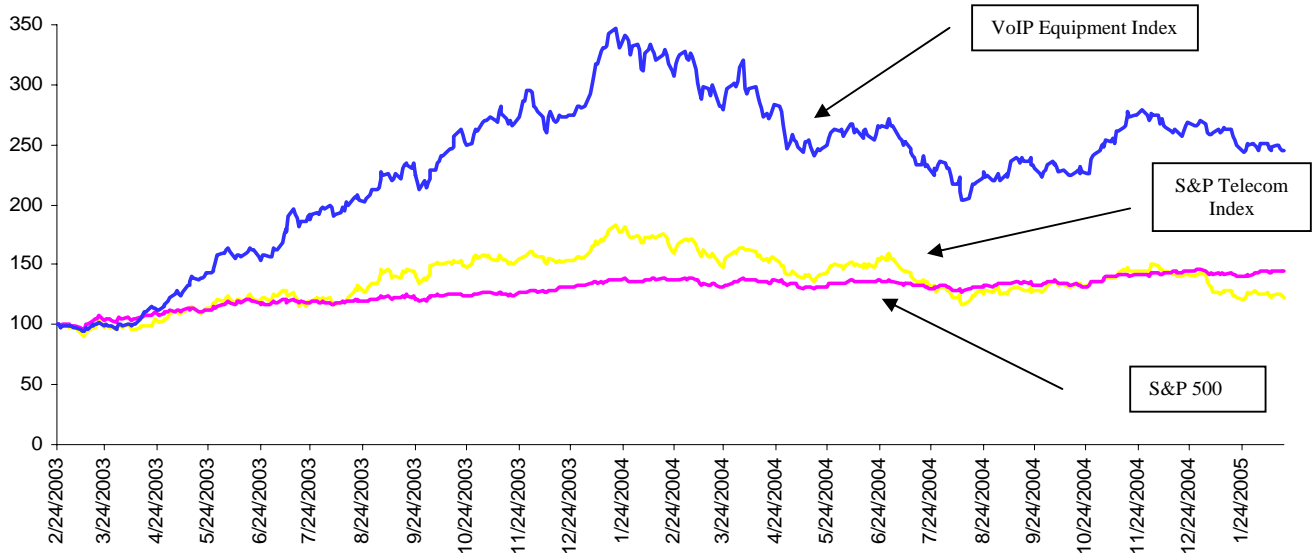
Financial developments January 2005

Company	Products/Services	Development	Details
AudioCodes	VoIP hardware	Quarterly Results	Revenues \$25.2 million. Net income \$2.6 million
8x8	VoIP hardware and service	Quarterly Results	Revenues \$3.0 million. Net loss \$5.8 million
RADCOM	VoIP test solutions	Quarterly Results	Revenues \$5.078 million. Net loss \$243,000
Zhone Technologies	VoIP solutions	Quarterly Results	Revenue \$28.1 million. Net loss \$3.8 million
AT&T	US long distance incumbent	Acquisition	Acquired by SBC for \$16 billion.
Info Systems	VoIP security	Acquisition	Acquired by MTM Technologies
LiteScape	VoIP enabled business applications	Funding	Raised \$7.5m funding. Investors include Softbank, Telesoft, Blumberg Capital
Global Triad	Tripple play	Funding	Raised \$0.5m funding. Investors Financial Group Inc

VOIP Services Index



VOIP Equipment Index



	Average Returns				
	<u>VOIP Services Index</u>	<u>VOIP Equipment Index</u>	<u>S&P 500</u>	<u>S&P 600 Diversified</u>	<u>S&P Telecom Index</u>
Annualized LTM	(15.17%)	(21.37%)	4.50%	16.85%	(28.05%)
30-Day Return	(0.24%)	(4.96%)	1.20%	(4.98%)	(6.55%)

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