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## Yahoo To Offer Competition To Telcos

**Yahoo** has made its entree into VoIP by acquiring **Dialpad Communications**, for an undisclosed amount. The acquisition has sent alarm bells ringing in both VoIP and traditional carriers, who are already facing tough competition in an overcrowded market.

**Yahoo** recently launched its own VoIP-enabled instant messaging (IM) product. With the **Dialpad** acquisition, **Yahoo** is looking to move into the VoIP carrier market and further expand upon **Dialpad's** voice services as a core component of **Yahoo's** communications offering. **Yahoo** plans to integrate **Dialpad's** technology with its new IM product to develop new VoIP services.

**Dialpad** has a strong VoIP customer base of 14 million, the majority of whom signed up when the company was offering free PC-to-Phone service for calls terminating in the US. **Yahoo** is interested both in **Dialpad's** VoIP technology as well as its customer base. **Dialpad** offers high quality PSTN calling with a flexible billing system and successful fraud management systems.

**Dialpad** also has experience in working with several VoIP carriers and has terminated over 2 billion minutes of PC-to-PSTN calls to date. This experience has given **Dialpad** the expertise to manage VoIP networks, carriers, interconnects and customers.

Although **Yahoo** has been providing voice services through its IM client, until now quality of service has not

been a requirement for their free service offering. The **Dialpad** acquisition moves **Yahoo** further into the realm of paid communications services, which obligates the company to maintain network quality and deliver an experience closer to what customers expect from a telecom provider.

The **Dialpad** team will be expected to manage the quality and continue to optimize the routing on a real time basis. The intelligent routing system is another of the many features that **Dialpad** brings to the deal.

**Yahoo**, on the other hand, brings 60 million IM users. The **Yahoo** Messenger is based on the Session Initiation Protocol (SIP) standard, a standard which is also supported within **Dialpad's** software. **Yahoo** intends to integrate **Dialpad's** service into its IM product to support both PSTN and PC-to-PC voice calling. **Yahoo** recently enhanced their IM product to include photo sharing, expanded friends lists and better spam control.

Once the combined IM product is launched it is expected to have more features than the existing **Dialpad** service offering. In particular, the combined team is expected to develop services such as voicemail, videoconferencing, and videomail.

**Dialpad** is a 40-person Milpitas-based company that was launched in 1999 to offer PC-to-Phone calling services. It has customers in over 200 countries. Apart from monthly subscription services, the company

## Yahoo – Continued

also offers a prepaid calling card service, which allows calls to be made via a regular phone without the need for a PC.

**Dialpad** raised \$65 million of funding through 2001, and subsequently went through reorganization at the end of 2001, and received an additional \$6 million. **Dialpad's** reorganization was largely the result of increased PSTN termination fees associated with its free PC-to-PSTN traffic, which its dialer-based advertising revenues could not offset. **Dialpad's** termination partner, **Genuity**, also experienced similar problems and was ultimately absorbed into **Level 3 Communications**.

After its acquisition, **Dialpad** will continue to accept new subscriptions for its core VoIP calling services including **Dialpad** prepaid, **Dialpad** monthly, **Dialpad** USA and its European discount plans. However, post acquisition, **Dialpad** will discontinue taking new subscriptions for phone-initiated calling plans.

## Sonus joins the IMS club

**Sonus** recently unveiled its IMS architecture at Supercomm. Through this architecture, service providers should be able to deliver integrated services over wireline, mobile, and WiFi networks. According to **Sonus**, IMS upgrade capabilities are included in its current products. As a result, existing **Sonus** customers can migrate to IMS using their networks as building blocks, with a few software upgrades.

In order to position itself as an IMS-compliant vendor **Sonus** has split up the functions of its PSX policy server and ASX access server. The vendor has also introduced the SRX and HSX software products and the IMX service creation platform to its product family. The SRX provides multimedia capabilities when customers choose to deploy a discrete call server control function creating a central coordination point for all SIP sessions. **Sonus** will be offering the SRX as a

Additionally, the company has dismantled its online store and discontinued selling broadband phones, adaptors, handsets, headsets, and other accessories.

**Yahoo's** expanded VoIP service may not entirely please **SBC**, **Verizon** and **British Telecom**, with whom the company has telecom relationships. **Yahoo** has a partnership with **BT** in the UK to deliver its instant messaging software as part of the **BT** Communicator soft phone. **Dialpad** could potentially compete with **BT's** offering. **Yahoo** has also a partnership with **SBC** for DSL services. However according to **Dialpad's** CEO Craig Walker "the acquisition has been structured in a way whereby Yahoo will offer complimentary service. There will be no competition with those companies". The **Dialpad** acquisition may in fact strengthen the existing relationships rather than proving to be a competitive offering.

Initial rumors indicated that **Yahoo** was considering acquiring **Skype**, but settled for **Dialpad** because of expertise the company has in the VoIP arena.

separate software product along with its HSX Home Subscriber Server (HSS) in Q4 2005. **Sonus** has not yet announced any IMS service provider trials.

Most softswitch vendors today are faced with two options for IMS. One option is to redesign their existing products, which currently contain a combination of several separate IMS functions in a centralized architecture. Furthermore, since most vendors have completely different implementations of wireless and wireline, this becomes a challenge to distribute the intelligence into a product that can service a single core network.

The other option that some vendors are taking is to develop or acquire completely new products to address IMS. This may be the cleanest approach both in the short run and the long run.

## Ditech Acquires Jasomi

**Ditech Communications**, a publicly-traded communications hardware vendor, has acquired SBC vendor **Jasomi Networks** for \$20 million, comprised of \$11 million cash, \$7 million in convertible notes, and \$2 million in future escrow payments. **Jasomi** sells its session border controllers to both carriers and enterprises, and its revenues are estimated to be in the range of \$2-3 million.

The rationale behind the acquisition of **Jasomi** is to complement **Ditech's** Packet Voice Processor (PVP) product. Ditech had been considering developing SBC functionality in-house, but chose instead to acquire the technology. It is rumored that they looked at several SBC companies including **Sansay**, prior to pulling the trigger on **Jasomi**.

Even though **Ditech** is known primarily for its echo cancellation products, the recent introduction of the PVP addresses a much broader set of VoIP-related issues. Specifically the PVP is targeted at improving functions like transcoding, voice quality and quality measurement. The company feels that a session border controller product based on the PVP, marketed as a "border services platform", is a natural fit to enable a broader range of border services.

The company's emphasis is to offer both a standalone SBC as well as an integrated platform that includes both control and security functions as well as other voice processing functions like transcoding and CALEA that are essential in an end-to-end IP environment.

**Ditech's** PVP was released in March 2005, but the company has yet to announce any customers for the product. The **Jasomi** addition brings more of a security capability, such as resilience against denial of service attacks, policy-based routing of a call, and call transaction recording. The product also provides some firewall capability, to hide the internal topology of carrier from external elements. **Ditech's** PVP product and **Jasomi's** SBC both have common building blocks and share SIP signalling as a standard protocol.

Some of the obvious competitors of a combined PVP-SBC product would be the media proxy/firewall that **Brooktrout** acquired from **Snowshore**. **Sonus** repositioned their product to be a network border switch, which is probably the closest competing product. **Nextone** is also partnering with **AudioCodes** on a combination product. Finally, it is rumored that **Newport Networks** is planning to add some media capabilities in their SBC as well.

Companies like **Lucent**, **Alcatel** and **Tekelec** could potentially be acquirers of SBC companies in the future. In 2003, **Alcatel** bought **Aravox** but then cancelled the project, leaving a definite gap in their portfolio. Though **Nortel** offers distributed SBC functionality in its Succession product line, it does not have a standalone product to compete as a pure-play.

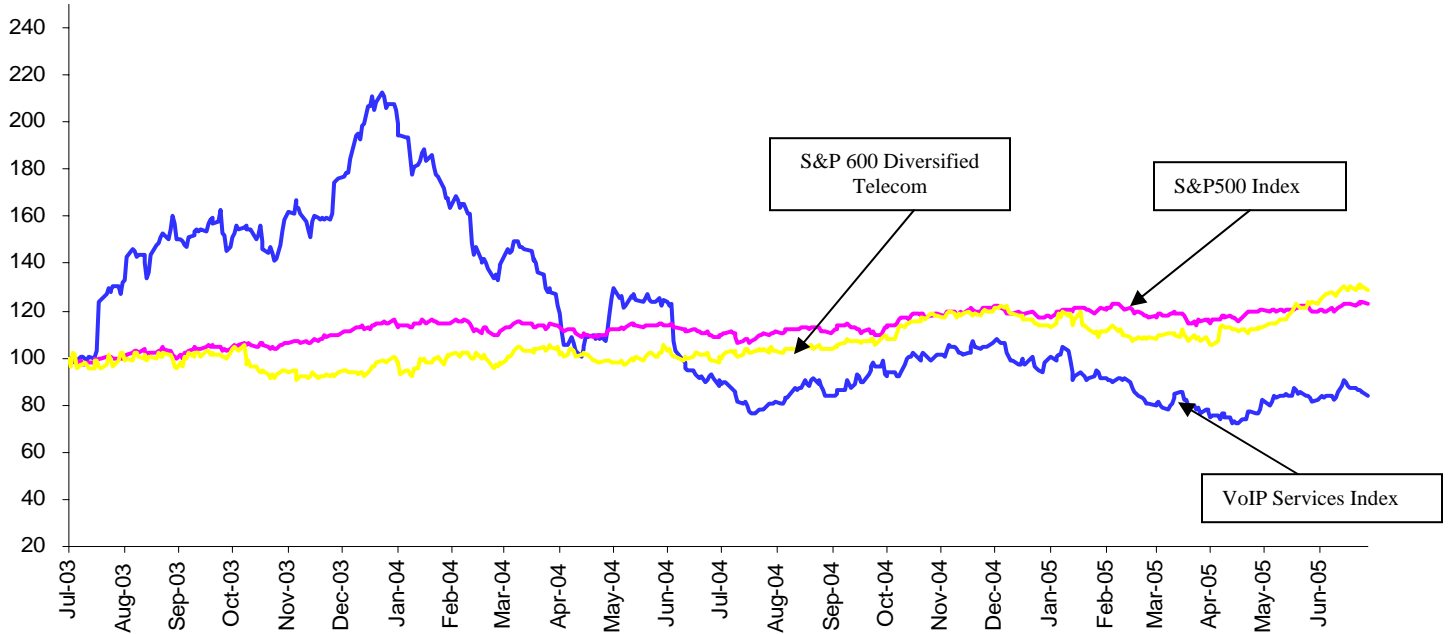
The price paid for **Jasomi** is certainly far less than the **Juniper-Kagoor** deal announced in March, which was valued at \$67.5 million. By contrast to **Kagoor**, **Jasomi** is a fairly lean company with only 23 employees, many of whom are engineers in the company's Calgary R&D facility, and the company maintains a very small sales and marketing infrastructure. **Kagoor** advertised over 100 customers, while **Jasomi** has approximately 80 customers. **Kagoor** had raised about \$40 million in venture capital, while **Jasomi** had less than \$4 million in investment. **Jasomi** was funded primarily by Angel investors and thus facilitated an easier and more modest exit than a VC-backed startup like **Kagoor**.

We expect additional transactions in the SBC space over the coming months, with **Acme Packet**, **NexTone**, and **Netrake** remaining as the strongest independent players in the sector.

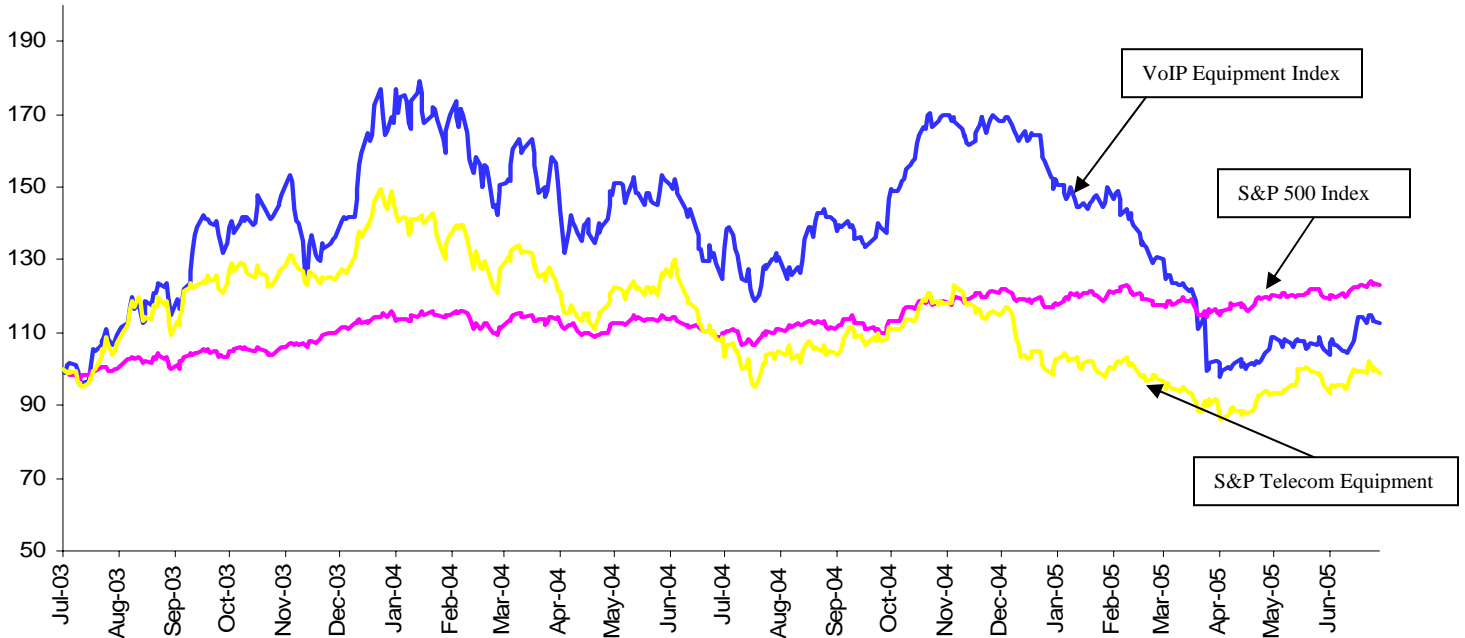
## Financial developments June 2005

Company	Product/Services	Development	Details
Jasomi	Session Controller	Acquisition	Acquired by Ditech for \$ 20 million
Sentito Networks	VoIP Switches	Funding	Raised \$10 million in funding
SOMA Networks	Broadband Vendor	Funding	Raised \$ 50 million in funding
HelloSoft	Signal Processing Technology for VoIP	Funding	Raised \$ 16 million in funding
Meru Networks	VoWLAN Vendor	Funding	Raised \$ 12 million in funding
PicoChip	Wireless Chipset Vendor	Funding	Raised \$ 20.5 million in funding

**VoIP Services Index**



**VoIP Equipment Index**



	Average Returns				
	<u>VOIP Services Index</u>	<u>VOIP Equipment Index</u>	<u>S&amp;P 500</u>	<u>S&amp;P 600 Diversified</u>	<u>S&amp;P Telecom Index</u>
Annualized LTM	(4.44%)	(9.65%)	13.91%	32.15%	(0.58%)
30-Day Return	0.59%	5.03%	2.63%	9.05%	(6.28%)

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