VoIP **Newsletter**

December 2003

MERCATOR CAPITAL

Inside This Issue

1 Teleglobe to Acquire ITXC

5 sentitO to try RUS certification

5 Qwest, Chunghwa, and Dacom decide to speed up migration to VoIP

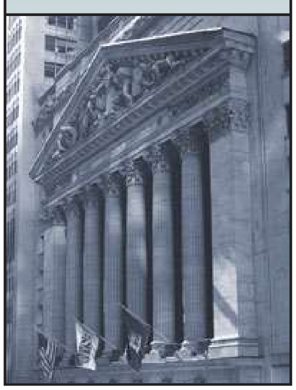
5 dynamicsoft Acquires Teltier; Cisco goes for Latitude

For more Information Contact:
Rod Hackman
Partner
Rhackman@mercatorcapital.com

Mercator Capital
www.mercatorcapital.com

Virginia Office:

One Fountain Square
11911 Freedom Drive
Suite 1080
Reston, Virginia 20190



Teleglobe to Acquire ITXC

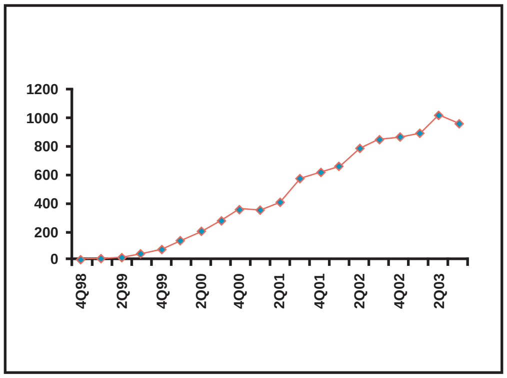
Teleglobe, Canada's official international calls carrier for the past 50 years, is to acquire ITXC, the largest VoIP service provider in wholesale international voice. ITXC shareholders will own 28% of the combined Teleglobe entity after acquisition. Cerberus Capital Management, L.P., Teleglobe's current controlling shareholder, will continue to own majority of Teleglobe with approximately 64% of the shares.

The Boards of Directors of both companies have approved the acquisition. SEC approval is expected in February 2004. Final ITXC shareholder vote will be held in mid March 2004. The deal is expected to close by the end of March. Teleglobe expects to start trading as a public company by mid 2004.

Teleglobe emerged from bankruptcy in May 2003 when its core voice and data assets were bought out of bankruptcy protection for a modest $171 million. The new Teleglobe has had positive net cash flows and is a private company with Cerberus Capital Management having around 73% share in it.

When ITXC officially commenced operations in April 1998, it carried less than 3 thousand minutes during the month. During the second quarter 2003 it carried almost 1 billion minutes over its network. Despite a phenomenal growth in traffic (Exhibit 1), ITXC has struggled. ITXC average revenue per minute has significantly decreased over the past three quarters from 9.2 cents per minute to 8.4 in the previous, declining further to 7.9 cents in the quarter ending September 2003. Gross margins were also down in the last quarter to 5.2% from 5.7% in the previous quarter. ITXC's nearest competitor iBasis has always enjoyed a slightly higher

Exhibit 1
ITXC Quarterly Traffic (in millions of minutes)



gross margin, which is most probably due to the fact that iBasis has focused on more profitable routes, whereas ITXC's main strategy has been to fill up its network with as much traffic as possible - to achieve scale. Despite being the 10th largest carrier of international wholesale traffic, ITXC has not been able to achieve sufficient economies of scale to reach profitability. This is partially due to the fact that ITXC does not own it's network infrastructure and pays a high cost for bandwidth. In comparison Teleglobe has circuit IRUs (Indefeasible Rights of Use) and owner participation in several cable systems, which dramatically reduces the OPEX and as a result improves gross margins. In fact, Teleglobe enjoys 25% gross margins on voice and 20% across all services. In contrast ITXC's margins could decrease further if the VoIP regulation making VoIP carriers to pay termination fee - initiated by the State of California is extended elsewhere in the United States.

ITXC BRIEF

Company History

ITXC (Internet Telephony eXchange Carrier) was founded in 1997. ITXCís initial business plan was to further extend the clearinghouse services idea of Vocaltec. The latter had been offering 'brokering' services to its customers worldwide, acting as a middleman to facilitate the exchange of Internet telephony traffic between service providers who had deployed Vocaltec gear. Vocaltec was one of the early investors in ITXC. The clearinghouse was a new version of aggregator business model with some online interaction for rate negotiation. Companies such as Band-X, RateXchange, AceAsia and others occupied the clearinghouse space in the TDM world. Over the years ITXC developed into one of the largest wholesale carriers of international voice traffic, covering some 175 countries.

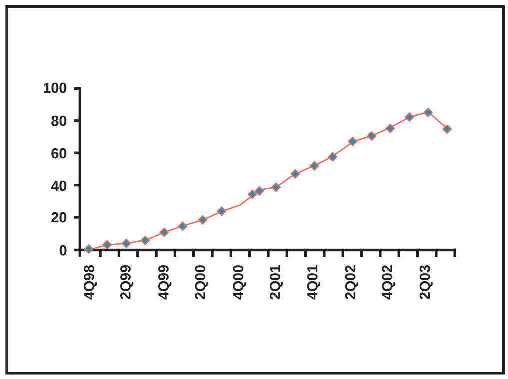
Business Model

ITXC has set up a network of 234 affiliate service providers worldwide. As of early 2003, it had Points of Presence (PoPs) in over 175 countries. An ITXC PoP ranges in sophistication from a simple 96-port standalone VoIP gateway (for pure termination) to a large bank of VoIP media gateways, softswitches, and other related VoIP/TDM carrier equipment. Some of the non-US small PoPs are fully owned by ITXC. Some are set up in partnership with the local service providers, in which case, ITXC shares revenue with the partner. Revenue sharing depends on the level of partnerís participation in both CAPEX and OPEX of the PoP. ITXC is also affiliated with several service providers who own their equipment/network and interoperate with ITXC providing each other access to

to pay termination fees, initiated by the State of California, is extended elsewhere in the United States.

ITXC cash reserves have been dwindling over the past years. It funded its expansion and subsequent operations through an IPO in 1999 and a secondary offering in 2000 that raised the $252 million. Looking at the guidance it provided to the financial community at various stages, the company has clearly struggled to become EBITDA positive although it did momentarily cross over in two successive quarters in 2002.

Exhibit 2
ITXC Quarterly Revenues ($ millions)



At the end of September 2003 the company had $58 million in cash, down from $200 million at the end of December 2000. For the quarter ended September 30, 2003 ITXC reported revenues of $74.6 million with a net loss $9.9 million. On a combined basis, ITXC and Teleglobe had revenues of approximately $286.8 million for the quarter. The combined company expects to have positive net cash flows by the end of 2004.

The combined company will rank third in total annual international voice minutes with a little over 11 billion compared to AT&T's 13 billion and MCI's 20 billion.

Synergies

At the moment Teleglobe and ITXC are ranked as 4th and 10th respectively, in terms of the international traffic volume. The two combined companies will become the 3rd largest carrier of international minutes. Excluding retail voice traffic, the combined entity could be number 1 in wholesale international minutes. In their respective networks. The owners and partners of all three categories of PoPs above qualify as 'affiliates' of ITXC. The collective number of PoPs in the three categories at the end of first calendar quarter 2002 was 892. After this ITXC did not report the number of PoPs. The model produced low overseas termination rates for ITXC customers. Initially the traffic was predominantly US originated traffic. However the non-US originated traffic has now risen to almost a third of the overall traffic ITXC handles.

In terms of the main ingredients in its business model, there have been three major shifts. ITXC has progressed from a Vocaltec-based clearinghouse to a facilities based wholesaler, and onwards to an application savvy carrier. Plans to provide enhanced applications turned out to be incompatible with the wholesale model. ITXC got rid of it's enhanced applications division (mainly PC-to-phone and related applications) and decided to focus on its core business of carrier wholesale of international long distance voice service. With the inevitable shrinking margins in the wholesale business, profitability remained elusive leading to the proposed company acquisition.

Technology

In order to lower its costs, ITXC has progressively utilized more and more of the public Internet to transport voice. In fact it has a patent in the field of routing voice traffic over public Internet. With the help of expertise gained in this area coupled with a much better bandwidth pool dedicated to the public Internet, ITXC has moved from a higher utilization of leased line networks to a more cost effective use of public Internet.

comparison to Teleglobe, ITXC has a narrow product line focus. In particular it has not been able to penetrate the mobile market. Teleglobe is well positioned in the mobile segment dealing with global roaming and text messaging.

With the acquisition, the combined company will reach more destinations, will have more PoPs and hence a choice of termination in terms of prices with varied quality. More PoPs also mean more competition among terminating partners. ITXC in particular can provide a faster rollout within a country because it can reach small operators more quickly at less cost. The merged company will be able to penetrate each country more deeply and potentially increase it's voice traffic. The resultant combined network infrastructure will facilitate a two-tier wholesale pricing system whereby customers will have a choice to pay higher prices for higher quality using the same carrier. Thus, the customer choice will not only improve in terms of applications (i.e. pure wholesale of voice, global roaming, international toll free, SS7 transit etc), but also within the wholesale voice application.

Margins can improve if ITXC utilizes Teleglobe's IP bandwidth. Teleglobe also stands to inherit an efficient back office system. For example, ITXC pricing system is automatic while Teleglobe's system is manual. Teleglobe route changes is a 24 hour cycle while ITXC can reportedly effect 35,000 route changes in an hour. The extent to which Teleglobe can benefit from this efficient back office system depends on how far this system can be integrated with Telegloble's other services i.e. roaming, data circuits, TDM voice etc.

Combined Strength	Benefit
More PoPs worldwide	A choice of termination rates, increased volume, better margins particularly on non-US originated traffic
More efficient back office systems	Automatic pricing updates, better management of routing, provisioning, and rate management. However cannot be easily extended to all application areas

ITXC has sourced equipment from a variety of vendors. These include Vocaltec (accounting for over 40% of its ports/lines at one point, but now phased out in the network), Cisco (supposed to be the sole VoIP gateway and softswitch vendor, having provided ITXC equipment financing options, uses Cisco media gateways, gatekeepers/ softswitches, and IP peering session border controller), Clarent (accounting for 20% of ITXC network at one point, Clarent filed for Chaper 11 and was later acquired by Verso, now phased out like Vocaltec), Huawei (used briefly to interoperate and better access Chinese network), Excel (used for taking TDM handoffs, now phased out as ITXC network has evolved to 'switchless PoPs' owing to the increased efficiency of its routing software), Kagoor (used to take IP handoffs and for security of its network and that of its affiliates, now phased out), Nextone (replaced Kagooŕs Session Controllers / Session Border Controllers).

ITXC also acquired the technology of eFusion, a start up focused on voice-enabled e-commerce applications. ITXC acquired eFusion and later sold to eStara for some cash and an equity stake in eStara. The eFusion acquisition initially helped ITXC position itself in the PC-to-phone market in 2000, when several such retail outfits emerged to offer free PC-to-phone services.

Combined Strength (cont.)	Benefit (cont.)
More diverse services portfolio	A possible two-tier pricing of voice for customers, cross marketing of services, better penetration of mobile market
Potential to create, integrate, and offer new IP based services	Can offer various different IP based applications, can better provide the existing international toll free service, other immediate possibilities include applications based on SS7 over IP
Diverse customer segment in wholesale voice	Steady flow of traffic from incumbents as well as nextgen carriers - big and small

Prospects

Teleglobe became unprofitable in the late nineties when it diversified into retail and enterprise markets beyond it's core business of carrier wholesale. Those ventures, pushed the company into bankruptcy. The company has been cash positive since it emerged from bankruptcy because it returned to a carrier wholesale model and radically reduced it's costs while in Chapter 11. The combined company (Teleglobe and ITXC) had positive net cash flow from operating activities for the 3rd quarter. After transaction and transition expenditures, it expects to become cash positive on a combined basis by the end of 2004.

In order to make sure that in the interim operations of both companies are not affected, the two have already appointed a full time transition team. Although the management of both companies have experience integrating companies. It remains to be seen whether the traditional incumbent TDM and nextgen VoIP cultures can work together to productively realize the synergies.

sentitO to try RUS certification

Maryland based softswitch maker sentitO Networks, has scored a Rural Utilities Service (RUS) field trial in Iowa. RUS is a Federal US agency that provides low cost loans to intependent operators. The independent operator in this case is Woolstock Mutual Telephone Association (WMTA).

Other nextgen Class 5 softswtich maker that has a RUS certification is Taqua. For a RUS certification the switch has to go through an in-service trial with live traffic. The certification is a very intense process which can take upto a year.

sentitO investors include TELUS Ventures, Core Capital Partners, Mid-Atlantic Venture Funds, Technology Venture Partners, Kodiak Venture Partners, and Inflection Point Ventures.

Qwest, Chunghwa, and Dacom decide to speed up migration to VoIP

Three major VoIP deployments were announced in the past month. Two of them (Dacom of Korea and Chunghwa Telecom of Taiwan) concerned Nortel Networks, while the third major deal was that between Qwest and Lucent.

Under a three-year agreement with Lucent, Qwest will deploy the vendor's new technology to migrate its network to VoIP. Qwest also uses Sonus switches for trunking part. Lucent's solution connect phones to either TDM or VoIP network. This feature helps Qwest in the evolution of the network. The solutions are high density products reducing the equipment footprint, and support several regulatory features found in Lucent's other TDM solutions.

dynamicsoft acquires Teltier, Cisco goes for Latitude

Apart from the ITXC/Teleglobe merger news, there have been other major acquisition announcements related to the VoIP industry in the past month. New Jersey based dynamicsoft, a SIP infrastructure and applications vendor, acquired Teltier Technologies, a software vendor developing Presence oriented solutions for 2G wireless networks.

The Teltier acquisition will help dynamicsoft in current wireless deployments, which are yet to evolve to the next generation. The transaction involved a mix of cash and shares in dynamicsoft.

dynamicsoft has over 30 customers which include vendors such as Cisco and Sonus, who use dynamicsoft SIP stacks, nextgen service providers such as Vonage, Callserve, and Deltathree who use dynamicsoft's SIP application platforms, and large carriers such as Sprint, British Telecom and NTT that utilize dynamicsoft's expertise in SIP based value added applications.

Although dynamicsoft's initial business plan revolved around SIP stacks, the company soon found that most vendors were developing SIP stacks in house. As a result dynamicsoft, and its competitors, moved towards the application market developing enhanced applications on top of the in-house stacks they had built. SIP being a text based protocol is perceived as easier to develop. Furthermore, SIP is regarded by many as being in its infancy mandating an in-house development.

dynamicsoft, with a staff of about 100, has in excess of $70 million paid up equity capital. The company was seen as an ideal acquisition target until last year when an extended development project with Sprint raised its prospects significantly.

dynamicsoft's competitor Hughes Software Systems of India also made an acquisition recently of a company named Tenet Technologies for approximately $5 million. Through the acquisition, Hughes hopes to better position itself in the Japanese market, which Tenet focuses on.

In another related industry announcement, Cisco said that it will acquire Latitude Communications for approximately $80 million. Founded in 1993, Latitude Communications develops audio and web conferencing solutions for use in enterprises

Dacom, Korea's second largest carrier, has selected Nortel softswitch and media/application server for VoIP and related value added applications. Taiwan's incumbent carrier Chunghwa Telecom has also opted for the same combination of products from Nortel.

Nortel Networks has been awarded contract to upgrade Chunghwa's Class 5 network to a packet based network.

as Lotus Notes and Microsoft Outlook. It also works with instant messaging clients and more importantly with Cisco's call management software. All this means that users will be able to schedule and manage meetings using enterprise IP phones and video conferencing solutions from Cisco. Latitude Communications is a publicly traded company with 183 employees and more than 400 customers worldwide. For the quarter ended September 2003, revenues were $8.6 million and a net loss for the quarter of $1.5 million.

Mercator Capital is a privately held investment bank committed to helping our clients achieve superior results. Our success stems from our focus on providing clients with quality advice and developing creative solutions. With decades of Wall Street leadership and extensive industry knowledge, we pride ourselves on a culture of excellence that promotes intellectual insight and rigorous analysis. We focus on building long-term relationships with our clients rather than pursuing individual transactions. For our clients, our approach means a much greater understanding of their business and markets, a more thoughtful and committed effort and an unmatched degree of senior-level service.

Our clients rely on our deep understanding of technological vision and financial expertise to assure the successful execution of their strategic initiatives.

Virginia Office:
One Fountain Square
11911 Freedom Drive
Suite 1080
Reston, Virginia 20190

Rod Hackman	rhackman@mercatorcapital.com	(703) 995-5524
David Ballarini	dballarini@mercatorcapital.com	(703) 995-5521
Lior Samuelson	lsamuelson@mercatorcapital.com	(703) 995-5525

Latest VoIP Funding		
Company	**Category**	**Details**
Vonage	VoIP Service Provider	Closed a $35 million financing round led by New Enterprise Associates
M5T	SIP stack and SIP applications	'Additional funding', amount not disclosed. Investor Media5 Corporation
Net2phone	PC-to-phone service provider	Raised $63 million through a public offering
Mediatrix	Low density media gateways	Amount not disclosed. Investor Media5 Corporation
iQ NetSolutions	Enterprise VoIP software	Amount of funding not disclosed. Investors Liberty Partners
Brix Networks	QoS solutions for IP services such as VoIP	Raised $8.1 million in its fourth round of venture capital financing. Investors Charles River Ventures, ComVentures, Fidelity Ventures, Partech International, and STAR Ventures
8x8	VoIP equipment makers as well as service provider	Had a private placement of 1.84m shares of its common stock at a $2.83 per share, gross proceeds of $5.2 million