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BT sings the song of migration

BT will be investing £2.25 billion (approx \$4.2 billion) beginning a year from now through 2008 to migrate its applications, including voice, to IP. By doing so, BT expects to achieve savings of £1 billion a year through ease of network management and other inherent advantages related to IP.

BT recently outlined a five-year plan of migration of its customers to its '21st century network'. The project is scheduled to commence in 2005 with the majority of work expected to be completed in 2008. According to the company, the migration plan will be implemented in a non-disruptive manner starting with an initial trial of 1,000 subscribers in Cambridge and Woolwich.

Factors driving BT to implement the plan, according to one of its suppliers, include the need to empower customers with some control and choice, being able to offer new services faster, decreasing service provisioning time, and the ability to reduce the service provider's OPEX.

Over the course of the migration project, the UK incumbent will be moving from narrowband to broadband. By 2009, the new network is intended to support various sorts of applications being used by the broadband customer base.

In Europe, incumbents have drawn up plans to move systematically to IP. The Scandinavian operators have in particular been working on the

Telecom Italia has migrated its entire voice backbone to IP. All Class 4 switches belonging to Telecom Italia (in Italy) are VoIP based systems sourced from Italtel and Cisco.

BT has been in discussion with various large and small vendors for the project. The service provider has demanded 99.999 percent uptime from these suppliers. The only major supplier announcement so far has been that of Marconi, who will be supplying their softswitch and nextgen DSLAM equipment. Marconi, being relatively new to VoIP industry, will be replacing or augmenting major BT switch sites. In the initial phase, BT will be using Marconi's softswitch at four of its sites and the vendor's nextgen DSLAM at 20 of its hubs.

28 million lines of BT are to be eventually migrated to IP. Nearly half of the lines will have broadband dialtone by 2007.

BT has been involved in several VoIP related projects since 1996. It started off with a PC-to-phone application integrated with its centralized subscriber database, which allowed its Internet subscribers to receive phone calls online. It has recently (December 2003) launched a VoIP over broadband offering. For the enterprises the incumbent has been offering hosted IP Centrex services for a while now. Abbey National, one of the large building societies in the UK and a BT VoIP customer installed 9,500 IP Phones at 746 branch sites in the UK earlier this year.

Lucent acquires Telica for \$295 million

Lucent has announced the acquisition of Telica for approximately \$295 million in stock and options. Telica is one of the major VoIP equipment vendors.

Telica offers a softswitch pack including a media gateway, media gateway controller, and a signaling gateway. According to Lucent, the main Telica product they are interested in is the media gateway which has one of the smallest footprint in the industry. Lucent's APX takes in 8,000 ports in a single chassis whereas Telica gateway has a density of 21,500 ports per chassis. On a per-shelf basis Telica supports 80,000 DS0 ports in a single shelf. Telica is also strong in scalability of call process, achieving 7.5m BHCA in a single Telica softswitch. These features, according to Lucent, are a 'perfect fit' with Lucent SoftSwitch.

Another area of compatibility between Telica and Lucent VoIP products is the wireless orientation. Telica solutions have both wireline and wireless interfaces. In fact, Telica has some deployments in the wireless segment. According to Lucent, with certain limited changes Telica softswitch can address wireless adequately. The wireless orientation suits Lucent's newly adopted standard for convergence architecture, which follows developments in wireless equipment market.

There is a "small amount" of overlap in the media gateway controllers of the two companies. For the signalling product there is good fit because Telica supports several signalling variants making non-US deployments easier.

One issue to note is that most of the traffic over Telica equipment has been TDM so far. MCI has been using Telica for TDM tandem, but is looking to carry VoIP with the equipment. Rogers Wireless and Verizon likewise use Telica for TDM tandem. Verizon has started to do some limited VoIP over Telica gear. These are some of the major

deployments. Other smaller operations utilize Telica in VoIP environment.

Telica has over 60 service provider customers for its Class 5 and Class 4 solutions. These are deployed as distributed setup or as one-box solutions. Approximately half the systems Telica has shipped are for Class 5 and the other half is Class 4. Some customers use the solution for both Class 5 as well as Class 4. The company has shipped a total of three million ports since inception.

In VoIP trunking, Telica has been one of the main vendors along with Nortel and Sonus. On the access side, Telica has carried out both replacement and augmentation of Class 5 and also incorporated the regulatory features. This is a unique achievement which Telica brings into Lucent embedded base. Through the Telica acquisition Lucent also brings in Verizon as one of the major VoIP customers. Verizon announced a migration plan to IP earlier this year. Although it had deployed Telica switches earlier, the major partner vendor facilitating migration to IP in the initial phase will be Nortel. It remains to be seen how Lucent leverages the Telica-Verizon partnership.

Based in Marlboro MA, Telica has about 250 employees. North America accounts for nearly 90 percent of Telica revenues. But the company expects that to go down to 60 percent by the end of 2005. Lucent's clout will help in achieving a better revenue spread geographically. Telica's 2003 revenues were \$19.2m. Revenue for the most recent quarter was \$6.3m.

Lucent has a large VoIP product portfolio, which includes the Lucent Softswitch, messaging solutions where Lucent has had a roaring success, an evolved form of its traditional 5E switches, and universal port gateways including Lucent TNT a product it added through Ascend acquisition. TNT accounts for most Lucent VoIP deployments.

Exploring a private-label hosted conferencing service for carriers

Flexibility of IP to create new services is probably the strongest motivation for carriers to migrate to IP. Not only does IP create new services faster, it greatly enhances the existing communications applications by, for instance, developing a web interface to the application. One such enhancement to an old application, that we explored, is private labeling hosted conferencing service for carriers and system integrators.

Being able to offer a private label hosted service to resellers is a recent development in telecommunications. The trend started in the prepaid calling card business and soon found its way into the enhanced applications space where messaging was the first hosted application with resellers – who did not have to own the infrastructure – being able to sell the messaging application under their own brand names. IP Centrex services market also developed a wholesale model whereby a service provider using a wholesaler's hosted IP Centrex platform could sell Centrex services to its enterprise customers under its own brand name. Private-label hosted conferencing service could work in the same manner. There are indications that several enhanced applications are moving towards this kind of model. That includes hosted contact center business where vendors are thinking about enhancing their solutions towards this end.

However, we believe that no such conferencing services/solutions are available in the market today. The closest to the concept is iTelco, a vendor and ASP providing branding at the user level i.e. their enterprise customers can brand the service by customizing voice prompts and adding logos on web interfaces. The solution is not brandable and available for other service providers on a hosted wholesale model. Santa Ana, CA based wholesale VoIP service provider Callipso seems to have adopted the concept. The company offers a conferencing platform to carriers, which is

customizable up to a certain extent. It is looking to develop flexibility into the platform in order to accommodate mass customization.

It appears that Callipso does not intend to sell directly to enterprises and that the distribution channel for this sort of offering is uncertain. However, as in the case of wholesale IP Centrex, Callipso's customers are likely to be carriers and system integrators. And end users are likely to be enterprises. System integrators and carriers are usually the channels to sell private branded applications. Once the development is done, Callipso could be hosting its conferencing application letting the reseller just focus on marketing its private label conferencing services to the end users, the enterprise. The solution has to offer carriers an easy way to adopt a conferencing platform so that they do not have to spend additional CAPEX. The wholesaler will be hosting the platform for them. The carriers will need their own user provisioning and management interfaces systemized and privately branded.

Callipso, previously known as CNM Networks, re-branded itself in order to position itself as a player in the enhanced VoIP services marketplace. Though pure voice is a very important revenue source for Callipso, the company is focused on incorporating enhanced applications. The company has patents pending for its routing technology. Seven of the top nine US prepaid service providers use Callipso wholesale solution. Last year the company carried about four billion long distance VoIP minutes and expects that traffic to touch six billion minutes in 2004. Callipso has invested over \$120 million into its network. Main vendors include Lucent and Sonus. Others include Riverstone, NMS Communications, and Nextone.

With the Callipso conferencing platform, end users (subscribers of Callipso carrier customers) will be offered the ability to add participants both through a web interface as well as through the phone keypad. Since

June 2004

Callipso is targeting enterprises through its carrier customers, development of end user features is inevitable. The company is integrating the application with Microsoft Outlook so that an end user can set up a conference call by a simple point and click on in the Outlook Contacts database. The conferencing application can then call those participants at the assigned time, or allow for call-in from people at the assigned time. That is one of the key features necessary to hit the enterprise market.

Custom conferencing development involves a customer specifying the features they want such as the custom voice prompt, the branding they want etc. The R&D for this private label customization is being done by Callipso in-house. That is one of the unique aspects of Callipso model through which the company provides custom developed platforms. The company employs a NMS Communications media server that will host the application. Application logic is written by Callipso itself.

An example where Callipso has already done

customization, on a different platform that Callipso offers today, is with Verizon. Verizon had a 'Verizon Dialer' which was a long distance platform. Verizon was looking to offer competitive long distance out of region so that they could go nationwide with their long distance service. Verizon employed an adaptor/dialer provided by a manufacturer so that the long distance call could be routed via Verizon. Callipso did all the rest, which included developing private label webpages for Verizon users so that they could check their call details online. This arrangement has been going on for three years and serves as an example of providing a hosted service and allowing a company to not pay a nickel in CAPEX.

Callipso is exploring vertical markets like wireless and cable to provide them custom packages/platforms such as conferencing services. The company is also looking at various options including possible mergers and partnerships with the vendors of enhanced applications that will take them into the enhanced space faster than the other service providers.

Broadsoft signs reseller agreement with Ericsson

IP Centrex and hosted PBX vendor Broadsoft has announced OEM agreement with another major vendor, Ericsson. This follows an earlier announcement whereby Lucent will be selling Broadsoft solution as part of their overall VoIP product portfolio.

Ericsson will be integrating the Broadsoft solution with its softswitch line of products. Both Lucent and Ericsson are reported to have carried out extensive due diligence in order to select the vendor whose solution they would sell in the area of hosted PBX/IP Centrex. Both Lucent and Ericsson have been relatively less successful in VoIP due to the lack of applications. Relationship with Broadsoft is expected to fill that void.

Broadsoft has shipped over 300,000 lines on a cumulative basis to over 60 customers worldwide. 100,000 lines have been shipped in the last six months alone, according to the vendor.

Broadsoft's competitor Sylanro has OEM agreements with Siemens, Alcatel, and IBM.

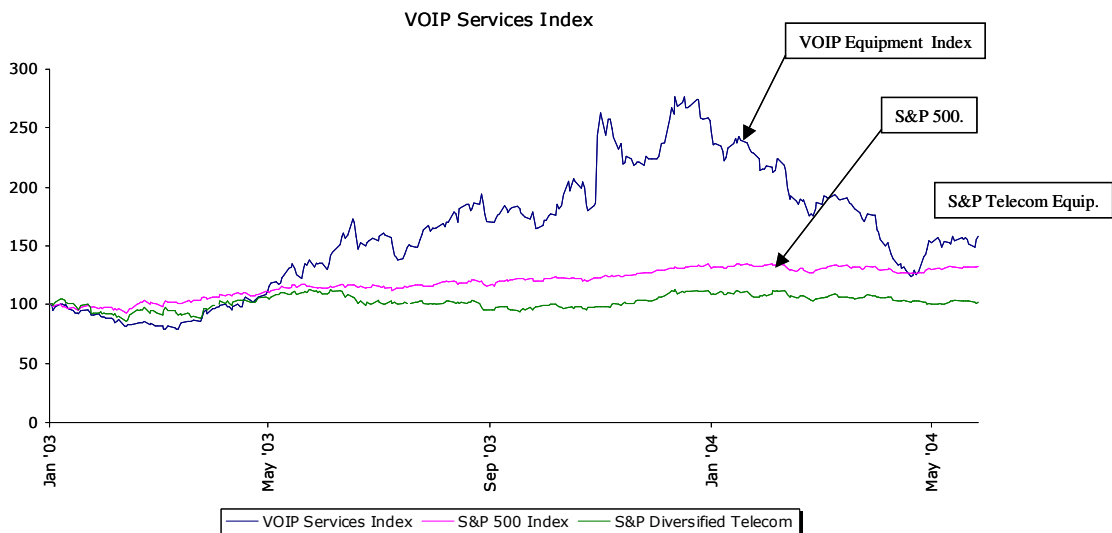
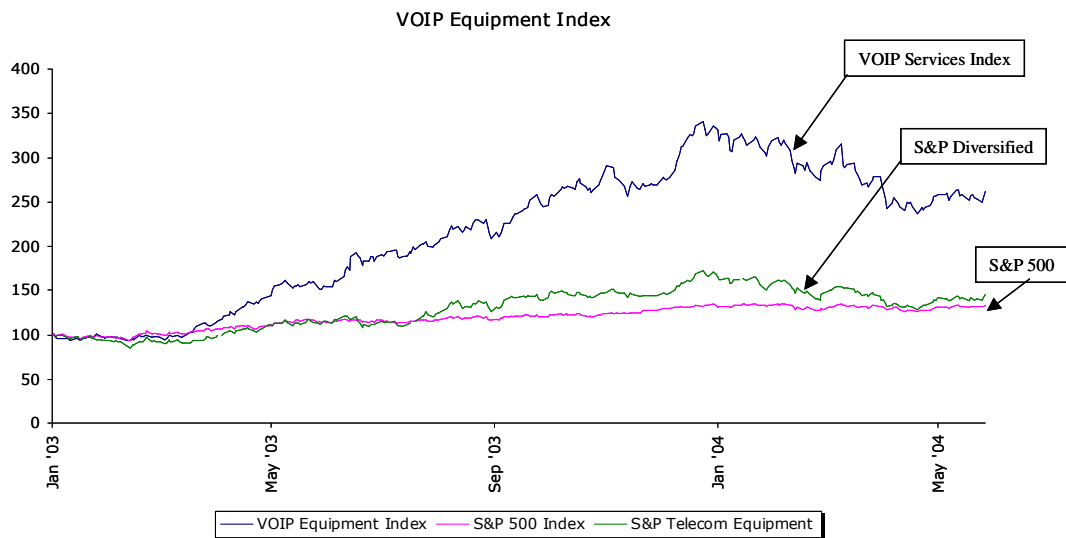
Both vendors claim have carrier grade solutions scaling to millions of subscribers. Together with Vocaldata, these three vendors of hosted PBX/IP Centrex have solutions that are technically and operationally the most proven in marketplace.

June 2004

Financial developments May/June 2004

Company	Products/ Services	Development	Details
Telica	Class 5 and Class 4 switches	Acquisition	Acquired by Lucent for \$295 million in stock
Net2phone	Retail VoIP service	Quarterly Results	Revenue \$21.5m. Net loss \$0.5m
8x8	VoIP hardware, and retail VoIP service	Common stock offering	Sold 4.8m shares of common stock to an institutional investor at \$2.50 per share

June 2004



June 2004

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