

Inside This Issue

1. **Special Offer – Free Admission – Fall VON 2005**
2. **VSNL To Acquire Teleglobe**
3. **Service Delivery Platform Renaissance**
4. **Telco Systems Buys Integral Access**
5. **Netcentrex Acquires NeoTIP**

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VSNL To Acquire Teleglobe

Former Indian international long distance monopoly carrier, **Videsh Sanchar Nigam Limited (VSNL)** announced the acquisition of **Teleglobe**, in a deal valued at \$239 million. The acquisition will make **VSNL** the fifth largest international voice carrier in the world, transforming **VSNL** into a truly global player. The acquisition requires approval by **Teleglobe's** shareholders and by regulators, and will likely take between six and eight months to complete.

Teleglobe is the largest wholesale VoIP carrier in the world and was formerly the monopoly international voice carrier for Canada. The current **Teleglobe** was established in September 2002 when **Teleglobe Inc.** was acquired out of bankruptcy for \$155.3 million by a holding company established by **Cerberus Capital Management** and **TenX Capital Partners**, a process that was completed in June 2003. **Teleglobe** later acquired **ITXC** in June 2004 and became a dominant carrier in the VoIP sector.

Teleglobe has over 1,400 wholesale customers and carries 13 billion minutes of TDM and VoIP traffic a year, while **VSNL** handles 3 billion minutes, mostly on a TDM-based network. The acquisition makes **VSNL** the fifth largest player in the international voice market behind **AT&T, MCI, France Telecom** and **Deutsche Telekom**.

The merger helps both **VSNL** and **Teleglobe** to improve their overall business prospects, and dramatically increases **VSNL's** footprint with international customers. Though **Teleglobe's** business had been improving since emerging from bankruptcy, competition and pricing pressures from other carriers are still very intense. **Teleglobe** came to the conclusion that building scale could only be achieved either by acquiring or getting acquired.

VoIP plays a major role in this acquisition, and was an extremely important driver for the acquisition for **VSNL**.

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VSNL – Continued

Though **VSNL** had some previous VoIP experience, it had not gained expertise in VoIP wholesale technology or international network implementation. The acquisition gives **VSNL** access to **Teleglobe's** global VoIP network, and an immediate position in the VoIP sector without having to go through the long process of TDM-to-VoIP migration. According to **VSNL** it will soon be moving its entire wholesale voice infrastructure to the VoIP backbone.

Besides helping **VSNL** to reduce the cost of transport, **Teleglobe** brings a strong back-office capability it inherited from the **ITXC** acquisition. **VSNL** also sees the acquisition as a means to improve its position in the Indian market, although due to current regulatory environment in India the company may not be able to maximize its VoIP capability within the country. In India, VoIP is

permitted for transport, but IP access is still regulated.

Once the draft unified license recommendations put forward by the Telecom Regulatory Authority of India (TRAI) are implemented, **VSNL** stands to have an early market advantage as the VoIP market in India opens up. The TRAI has recommended that full-scale VoIP deployments be allowed within India, both international and domestic.

VSNL provides **Teleglobe** a strategic direction and commitment to grow and invest in its business, if required. **VSNL** also contributes additional network infrastructure through its acquisition of **Tyco International's** network in November 2004. Post acquisition, **Teleglobe's** main technical operations and management will continue to be located in Montreal, Canada. **Teleglobe** also has offices and sales representatives in 30 countries worldwide.

Service Delivery Platform Renaissance

For over a decade, there has been a general consensus in the telecom industry that services, and not prices, will be the key differentiator between companies in the future. In order to increase average revenue per user (ARPU), service providers will need to be able to offer more value-added services than their competitors. Traditionally it has been slow and expensive for carriers to add new services to their network infrastructure, which has been a barrier to maximizing potential revenues.

In a competitive market, service providers may need to re-evaluate their policy on ROI when considering the rollout of services over converged networks. A key factor is the deployment costs for introducing a new service. On an average it typically costs service provider about \$2 million to launch each new service, and takes much time and effort to bring even a simple service to life. These problems are being addressed by a new class of products which the industry calls a "Service Delivery Platform" (SDP).

SDPs enable service providers to acquire, launch, and manage dozens of services running over their networks. The solution comprises multiple software modules that, once integrated, create a platform enabling carriers to provision, manage, and bill for services delivered across their networks, whether those services are created by third parties or by the service providers themselves.

SDPs strive to minimize the complexities of running large numbers of services for potentially millions of subscribers across multiple networks. To keep things simple for service providers, SDPs use common functions and frameworks for all services, and insert a layer in between the services being created and the customer interfaces.

The SDP architecture helps service providers to open up their infrastructure to third parties so that they can seek new innovations and ideas more widely. Technology that interfaces into SDPs allows services to be personalized and even to be threaded together to

create new compound services. Significant cost savings can be achieved when an SDP replaces a highly complex application with common functions that can be reused across multiple services.

At this point, there is a difference of opinion over what SDPs are and which components they contain. There seems to be as many architectural models of SDPs as there are vendors in this market. The Open Mobile Alliance (OMA) architecture model is the one that many people reference. Similar to the OSI 7-layer model, the OMA is a layered model that contains most of the network assets or resources that service providers want to make available to developers. Most SDP architectures have some or all of the layers defined by the OMA even if they call them by different names.

SDPs are independent of the underlying physical network infrastructure. This in turn allows service providers to access network functions while protecting them from the protocols and implementation issues in the underlying networks like PSTN, 3G, or next generation networks. The protection can be provided by middleware products offered by vendors such as **AePona** and **jNETx**. There are also some well-known vendors like **Ericsson** and **Lucent** that can also perform these functions. This middleware product basically acts as a software gateway between the SDP and the underlying network.

Japan's **NTT DoCoMo** is widely credited with pioneering the SDP approach with its I-Mode service. The Japanese carrier has also exported SDP technology to other mobile operators including operators like **mmO2**.

Operators that have already taken the leap into SDPs include **France Telecom**, who is reorganizing themselves in preparation for convergence and the rapid launch of new services. An SDP platform is also currently being used by the wireless unit of **Telstra**. **Chunghwa Telecom** and Italian competitive carrier **Wind Telecomunicazioni** are trialing the **Ericsson**

Service Delivery Platforms – Continued

SDP. South Korean mobile operator **SK Telecom** and Spanish operator **Telefónica Moviles** are using an SDP from **Hewlett-Packard**. **Sun Microsystems** announced its SDP program in 2003. Since then the platform has evolved to allow new services to be developed for existing networks, to coordinate services from third-party vendors, and to integrate, package and deliver services to end-user customers. **Sun** is collaborating with network equipment providers, system integrators and independent software vendors to build out the framework. Initial partners include **Appium, Drutt, EDS, jNetx, Open Cloud** and **Terraplay**.

While mobile operators have taken the lead in implementing SDPs for their customers, some of the wireline carriers are also testing the waters. **Bell Canada** and **BT** are deploying **Microsoft's** Connected Services Framework (CSF), which was launched in February 2005, to create and deliver services to SMB customers. **BT** also deployed CSF to provide Internet-hosted services such as email, shared calendar, contacts and other applications to SMB customers.

Celcom Malaysia is another customer of **Microsoft** SDP. The wireless operator is implementing the solution to offer new multimedia services and richer applications such as email, calendaring, and instant messaging to multiple mobile devices. Seven other customers in Asia, North America and Europe have also signed up to deploy **Microsoft** SDPs.

The progress that mobile operators and fixed-line carriers have achieved in rolling out new services using SDPs has resulted in system integrators being utilized to implement SDPs. System integrators that are already marketing themselves as SDP experts include **Accenture, IBM** and **LogicaCMG**.

Most of the SDP offerings that are in the market today tend to be more of custom integration projects than anything else. Certain vendors, including **Microsoft**, are focused on a specific set of capabilities that can be productized and that are repeatable across different communication networks. **Microsoft's** focus is on using web-based technology for service delivery and service creation and with this, the vendor has complementary relationships with various system integrators and network equipment providers.

The business case for SDPs at present is to reduce the total cost of services and cost of integration, thus reducing the time to achieve a positive ROI. SDPs can also translate to earlier revenue recognition by being able to deliver services faster than one could otherwise be able to achieve. Service providers are able to gain revenue today that may otherwise take several months or years to achieve. Finally, SDPs also allow third-party developers to create services to run over carriers' networks, which in turn increases flexibility and potential revenue sources.

Service delivery platforms and their potential role in next-generation networks remains to be proven on a wide scale, and early proponents are still pondering how they will be deployed in traditional carrier networks. Some vendors and service providers have adopted a wait-and-see strategy and are allowing all the issues with SDPs to be sorted out before initiating deployments.

Telco Systems Buys Integral Access

Telco Systems has acquired privately-held **Integral Access**. Terms of the acquisition were not disclosed. **Integral Access** develops IP-based multi-service access platforms for converged voice and data. This acquisition will enable **Telco Systems** to offer service providers an integrated access system designed to migrate carriers from TDM-based services to IP/MPLS-based voice and data services.

The acquisition also complements **Telco Systems'** IP product offerings that include metro Ethernet access rings, residential and enterprise VoIP, FTTx and Wi-Fi backhaul. The acquisition will enable **Telco Systems** to make further inroads with next generation network carriers, CLECs and alternative service providers.

Integral Access was launched in 1996. The company secured \$113 million in venture funding since its inception in 1996. Investors include Boston's **Ascent Venture Partners**, **Prism Venture Partners**, **Technology Crossover Ventures** and **Vesbridge Partners**. The company has a total of about 10 customers including **Time Warner Telecom**.

Integral's product supports softswitch VoIP infrastructures as well as Class 5 switches, and can be deployed in central offices, multi-tenant units and on customer premises. Examples of interoperability on the softswitch side include **Tekelec** and **Metaswitch**. A key value proposition for **Integral's** products is to enable a carrier to switch customers to VoIP from TDM without having to upgrade the equipment.

The company's platform can be used as an access gateway in VoIP networks, and competes with **Cisco's** 6000 series gateway. The product is an IP-optimized system for next generation networks that also assists in network migration by supporting a wide range of legacy services. In addition, it can be deployed as an access gateway for softswitch-based architectures and data services, or with Class 5 central office switches.

Netcentrex Acquires NeoTIP

The Session Border Control (SBC) market is in the news again. Following the acquisitions of **Kagoor** and **Jasomi**, **NetCentrex** has added SBC capability by gobbling up SBC player **NeoTIP**. Both **NetCentrex** and **NeoTIP** are spinoffs of **Groupe France Telecom**, receiving funding from the parent company. **NeoTIP** had about 25 employees and around 10 carrier customers.

Netcentrex will primarily use **NeoTIP's** SBC expertise to strengthen its rapid evolution toward a full IMS architecture. This initiative is part of the company's strategy to bring security, interoperability and QoS to its IP-based voice and video communications.

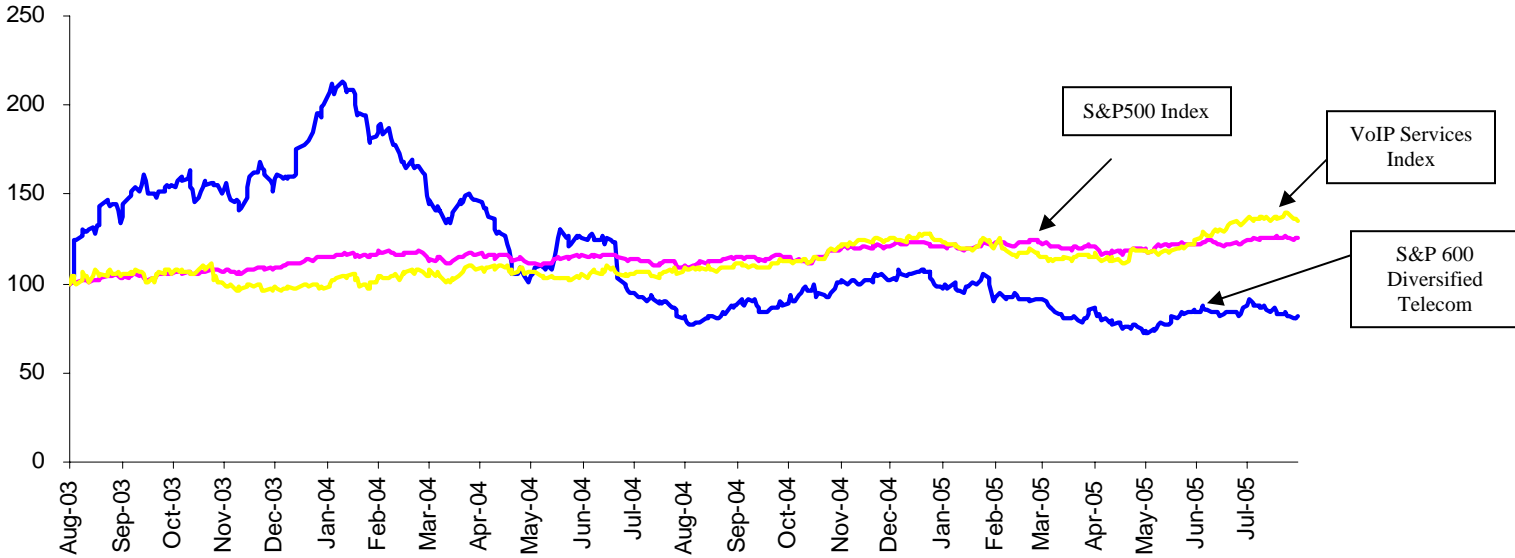
NeoTIP's technology will be integrated into **Netcentrex's** IMS solution, and in particular the P-CSCF (Proxy Call Session Control Function) component. It will also add new features to existing SBC functionality provided by the **Netcentrex** Business Services Suite and IP Trunking offerings, enhancing interoperability with IP-PBXs and adding security without increased complexity. This acquisition will allow **Netcentrex** to concentrate its development efforts on other aspects of IMS, and quickly bring a complete IMS solution to market.

NeoTIP's SBC is targeted at fixed, mobile, and converged networks and manages network address translation (NAT) as well. **NeoTIP**, headquartered in Lannion, France, complements **Netcentrex's** engineering team with expertise in security and quality assurance for IP communications.

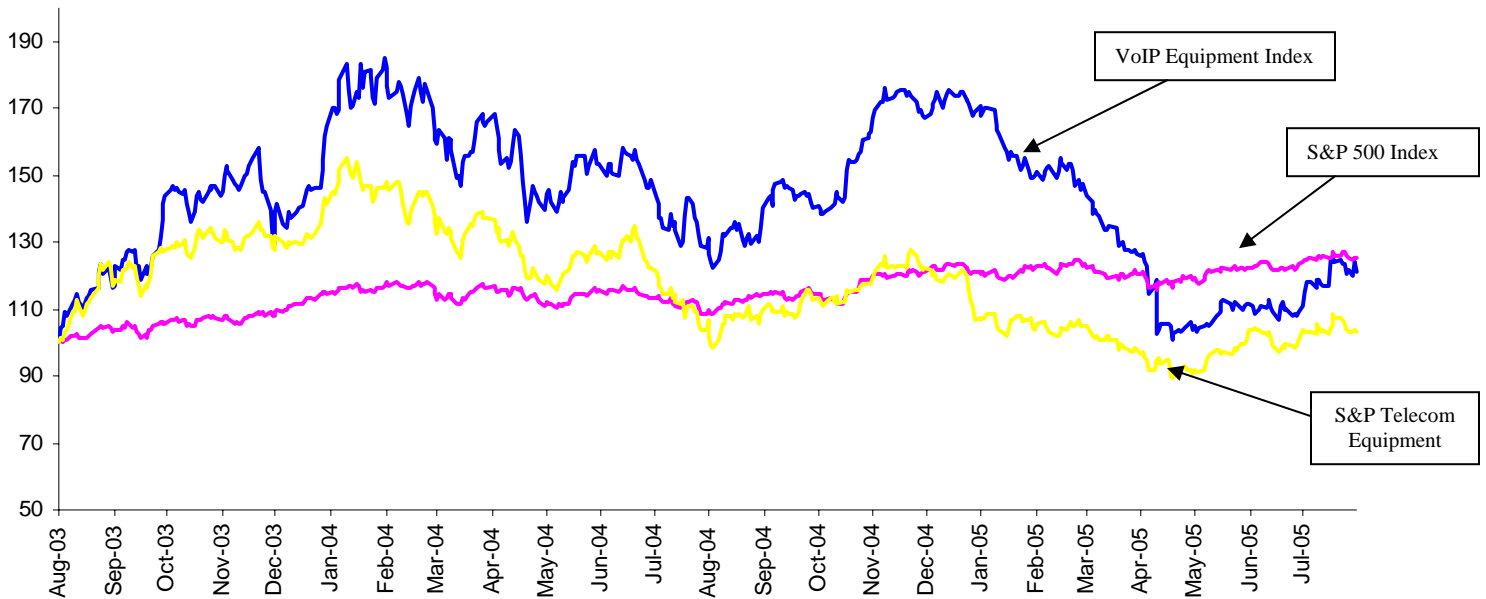
Financial developments July 2005

Company	Product/Services	Development	Details
Teleglobe	Long distance wholesaler	Acquisition	Acquired by VSNL for \$ 239 million
Integral Access	Multiservice access switch	Acquisition	Acquired by Telco Systems. Financial details not disclosed.
NeoTIP	Session Border Controller	Acquisition	Acquired by Netcentrex. Financial details not disclosed.
Audiocodes	VoIP hardware	Quarterly Results	Revenue \$28.5 million. Net income \$3.1 million.
Vocaltec	Softswitch, Access Server	Quarterly Results	Revenue \$1.4 million. Net loss \$2.4 million.
Mind CTI	VoIP billing	Quarterly Results	Revenue \$3.42 million. Net income \$0.69 million.
Radvision	VoIP enabling technology	Quarterly Results	Revenue \$17.5 million. Net income \$2.2 million.

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	4.13%	(1.60%)	16.16%	29.67%	1.67%
30-Day Return	(2.11%)	9.90%	2.34%	3.33%	5.35%

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