News & Views

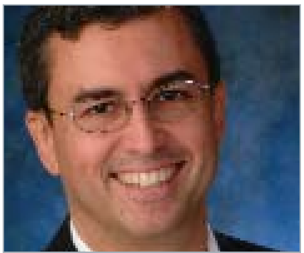
IN BRIEF

❑ **Brasil Telecom Globenet** and **IT International Telecom** have completed a cable reburial project securing Globenet's New Jersey-to-Bermuda section of its dual-ring fibre-optic network. This section of the cable network runs along the continental shelf, ranging from 20 to 600 metres in depth, in an area known for a significant amount of commercial fishing activity. In order to ensure continued network security, the segment was reburied to ensure the cable is protected from anchors and trawling.

❑ **Gateway Communications**, a provider of pan-African voice and data connectivity services, has agreed to acquire **GS Telecom**, provider of data connectivity services to corporate customers and telecommunications operators in Africa. The transaction was valued at approximately $37.5 million and is to be financed through a combination of cash and funds from a newly issued bond. ■

RCN acquires Neon

US metro player RCN has agreed to acquire Neon Communications for up to $5.25 per share of NGI common stock, in cash, for expected total consideration of up to $260 million. The acquisition will add approximately 4,800 route miles, 22 co-location facilities and more than 200 points of presence from Maine to Virginia.



Felipe Alvarez,
business group president, RCN

Felipe Alvarez, business group president at RCN, said: “Neon's network runs through utilities and gas pipeline right of ways and there aren’t that many redundant paths left. You can either build with the financial burden that is required or you can acquire. It was a very specific set of network issues that were in line with RCN and these assets will help the company grow.”

In addition to infrastructure assets Neon will add a carrier-focussed customer base to RCN’s mostly retail portfolio. Alvarez said: “RCN has a mix of retail and wholesale but it is primarily retail oriented right now. The company does offer wholesale and I think this acquisition is going to really make this revenue stream leap. Neon is primarily a wholesale company, more than 98% of its customer base is in wholesale.”

This acquisition comes on the heels of RCN’s acquisition of Con Ed Communications in March last year. The company had close partnerships with both Con Ed and Neon from the early 2000s.

Dave Rusin, founder and CEO at American Fiber Systems said: “I believe we will begin to see another round of consolidation commencing in the third quarter of this year. We will continue to see the value and emphasis around carriers that own and operate metropolitan fibre-optic infrastructure.” ■

FOCUS ON SMALL BUSINESSES

With consolidation continuing in the IP PBX segment, **David Ballarini** examines Shoretel’s rocky road to an ultimately successful IPO

Analyst’s Eye

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2007 is proving to be a pivotal year for PBX vendors with Avaya being bought, a marriage between Mitel and Intertel, and Cisco making a strong push in the SMB market. There is considerable consolidation taking place in the IP PBX segment.

Not only are traditional PBX vendors struggling to transition to IP, but a growing number are trying to address the largely untapped SMB market. But it has distinct challenges, and my view is that vendors with a history with SMBs are better positioned than new entrants. One vendor, Shoretel, has always focussed on SMBs, and was hoping that a successful IPO would allow it to keep pace with competitors.

This sets the stage for Shoretel’s rocky IPO in late June. The company originally indicated a pricing range of $8.50 to $10.50 per share. On June 27, the company priced at $10.50, with the expectation to begin trading the next day. But that night it was slapped with an “interestingly” timed patent infringement lawsuit by Mitel, an event that was not previously explicitly disclosed as a risk factor, and which placed the IPO on hold. After more delay, the offering was re-priced at $9.50 per share, and the shares began trading on July 3. Shoretel’s shares opened at $9.80 on July 3. Since then the stock has traded as high as $14.50, giving Shoretel a market capitalisation of $600 million.

Shoretel’s 2006 revenues were $61.6 million, more than triple 2004 sales of $18.8 million, and it is modestly profitable. The valuation of $600 million is a much higher multiple than the $691 million that Mitel is paying for Intertel, which has revenues of over $450 million. But Shoretel’s IPO gives it more control over its destiny than if it had remained private. The IPO is good news for enterprises and SMBs, who are in a difficult environment for making buying decisions. Given how IP is evolving, buyers need to believe their vendor will be here for the long run.

Shoretel’s offerings are IP-based, though some people argue that its combined switch/gateway architecture make it more of a legacy TDM PBX with an IP wrapper. That said, Shoretel is known for its high marks for simplicity and customer satisfaction, and the proceeds from the IPO will allow Shoretel to continue its focus on innovation. We feel this is the best way for it to carve out a niche that can be defended, as competitive pressures will only increase. Longer term it remains to be seen if it can remain independent, competing against companies who are orders of magnitude larger. ■