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*FocalPoint Partners is a middle market investment banking firm serving the telecom industry. Kevin Trosian, Operating Partner at FocalPoint and former banker with Montgomery Securities and Banc of America (BoFA) Securities, shares his insights into the market forces which are shaping the telecom industry.*

## Market Outlook

### ***The near re-assembly of the former AT&T is providing greater opportunities for the smaller telcos***

With the large carriers joining forces, as witnessed with the recent mergers of Verizon/MCI and SBC/AT&T, the focus on the Small/Medium Business (SMB) market has diminished. In turn, this has created a larger opportunity for the smaller carriers and resellers to expand their market share. For example, it has been unofficially announced that Global Crossing recently made the decision to no longer renew contracts with CLECs billing less than \$100,000 per month.

We anticipate the recent consolidation trend to continue as the carriers focused on the smaller/regional markets build their respective footprints and fulfill demand unmet by the large players. FocalPoint anticipates that the initial trend will be among the regional carriers, building in all areas of the United States. The most successful are likely to find the holes in the strategies of the large players and take advantage of likely integration issues among the incumbents. This includes not only focusing on a particular region, but also providing the customer support and rapid provisioning needed by the SMB market.

We believe the initial stage of new activity in the telecom market is likely to come in the form of mergers and acquisitions. In approximately 9-18 months time, we anticipate the merger activity will begin to morph into private equity financing opportunities, providing the capital for further industry consolidation.

## Industry News

### **Level 3 Completes ICG Acquisition**

Level 3 Communications, Inc. (Nasdaq: LVLT) announced that it has completed its acquisition of all of the stock of ICG Communications, Inc., a privately held Colorado-based telecommunications company. Level 3 paid total consideration of 25,975,088 unregistered shares of Level 3 common stock and approximately \$45 million in cash.

## Industry News (Cont'd)

### **TelePacific Acquires Mpower**

TelePacific Communications, which provides telecommunications services to businesses throughout California and Las Vegas, Nevada, and Mpower Communications Corp. (AMEX: MPE), which provides business, residential and wholesale telecommunications services throughout California, Las Vegas, Nevada and Chicago, Illinois, announced that they have signed a definitive merger agreement pursuant to which TelePacific will acquire Mpower. TelePacific will pay \$1.92 in cash per Mpower share, which equates to a total equity value of approximately \$204 million.

### **Integra Telecom Acquires Electric Lightwave**

Integra Telecom, Inc., a provider of local, long-distance and Internet services for small and mid-size businesses, announced that it has signed an agreement to purchase Electric Lightwave, Inc. (ELI) for \$243 million in cash plus the assumption of approximately \$4 million in capital lease obligations. Under the terms of the agreement, Integra will purchase ELI, including its assets and customers, from Citizens Communications (NYSE:CZN).

### **Choice One and CTC Acquire Conversent**

CTC Communications and Choice One Communications, which on February 10, 2006 announced their agreement to merge, announced they are jointly acquiring Conversent Communications, Inc., an integrated communications provider with significant facilities and customers in the Northeast as well as in West Virginia. On a combined basis, the three companies currently generate about \$800 million in annual revenue and provide telecommunications services to over 150,000 business customers representing more than 1.3 million access lines equivalents. The combined company, which will be privately held, will be the second largest competitive communications provider in the U.S., with a heavy regional focus in the Northeast, Mid-Atlantic, and upper Midwest regions. Its network will include 10,000 route miles of fiber and approximately 700 unique collocations.

To discuss the Telecom industry or to learn more about FocalPoint Partners please contact  
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## Selected CLEC M&amp;A Transactions

Date	Buyer	Seller	Target Description
31-May-06	ADC Telecommunications, Inc.	Andrew Corp.	Manufactures communications equipment, software, and antennas
18-May-06	Innofone.com, Inc.	InfoWeapons, Inc.	Provides network hard and solutions
16-May-06	AT&T, Inc.	Nistevo Corp.	Provides software solutions
15-May-06	Qwest Communications International, Inc.	OnFiber Communications, Inc.	Provides custom-built and managed metropolitan Ethernet and wide-area network solutions
12-May-06	Innofone.com, Inc.	Mobile Technology Group LLC	Provides mobile messaging and transactions
11-May-06	SeaMobile, Inc.	Maritime Telecommunications Network, Inc.	Provides satellite communications for cruise ships
9-May-06	Cincinnati Bell Technology Solutions, Inc.	Automated Telecom, Inc.	Provides telecommunications services
8-May-06	American Broadband Communications, Inc.	Germantown Independent Telephone Co.	Provides telephone communications services
5-May-06	TelePacific Communications Corp.	Mpower Holding Corp.	Provides telecommunications and Internet services
25-Apr-06	BCE, Inc.	Able Communications Inc	Provides communications services
17-Apr-06	Level 3 Communications, Inc.	ICG Communications, Inc.	Provides broadband Internet infrastructure services
10-Apr-06	Otelco, Inc.	Mid-Maine Communications	Provides telecommunications and Internet access services
5-Apr-06	Cybertel Capital Corp.	HBLN Services, Inc.	Provides consulting services to government and commercial telecommunications providers

Date	Buyer	Seller	Target Description
16-Mar-06	Future Internet Technologies	Advance Global Communications	Provides telecommunications services
9-Mar-06	Buzz Technologies, Inc. /Old/	Affordable Telecommunications Technology Corp.	Provides wireless telecommunications services
5-Mar-06	AT&T, Inc.	BellSouth Corp.	Provides a broad range of telecommunications services
2-Mar-06	Global Crossing Ltd.	Geo911, Inc.	Develops enterprise and management software
27-Feb-06	eLEC Communications Corp	Liberty Bell Telecom LLC	Provides local and long distance telephone service
17-Feb-06	Vocalscape Networks, Inc.	Azatel Communications, Inc.	Develops and manufactures communications hardware
16-Feb-06	Verizon Communications, Inc.	Cal-One Cellular LP	Provides wireless communications services
14-Feb-06	Rapid Link, Inc.	Telenational Communications, Inc.	Provides domestic and international long distance services
10-Feb-06	Columbia Ventures Corp	Choice One Communications	Provides voice, data, and Internet communications services
8-Feb-06	BT Group Plc	Click Forward Marketing LLC	Provides search engine marketing software and services
6-Feb-06	INX, Inc.	Datatron Network Systems	Provides network solutions
1-Feb-06	Infinite Networks Corp.	CET LLC	Develops combustion engine technology and products for automobiles and boats
1-Feb-06	AT&T, Inc.	Terradigm, Inc.	Provides professional support services
26-Jan-06	Eschelon Telecom, Inc.	Oregon Telecom, Inc.	Provides telephone and Internet access services
25-Jan-06	FairPoint Communications, Inc.	CassTel	Provides telephone and Internet services
5-Jan-06	Thermo Companies	Globalstar Americas Telecommunications Ltd.	Provides mobile satellite telecommunications services
5-Jan-06	Thermo Companies	Globalstar Americas Holding Ltd.	Provides telecommunications services
5-Jan-06	Thermo Companies	Astral Technologies Investment Ltd.	Provides telecommunications services

## Selected Company Valuations

Company	Ticker	Market Cap	Enterprise Value	EV/EBITDA	Revenue	EBITDA	Stock Price	52 Week Range
Cbeyond Communications, Inc.	CBEY	\$529.10M	\$501.63M	18.8x	\$171.50M	\$26.62M	\$19.83	\$9.45 - \$21.09
Covad Communications Group, Inc.	DVW	\$626.61M	\$690.07M	-42.7x	\$453.21M	-\$16.17M	\$2.14	\$0.65 - \$2.72
Deltathree, Inc.	DDDC	\$90.00M	\$84.68M	78.3x	\$33.86M	\$1.08M	\$3.00	\$2.33 - \$4.05
Eschelon Telecom, Inc.	ESCH	\$228.46M	\$304.29M	7.9x	\$232.94M	\$38.55M	\$15.37	\$11.50 - \$17.18
ITC DeltaCom, Inc.	ITCD	\$28.12M	\$299.19M	5.3x	\$503.04M	\$56.08M	\$1.50	\$0.87 - \$3.87
Level 3 Communications, Inc.	LVLT	\$4.36B	\$9.57B	24.1x	\$3.89B	\$398.00M	\$5.15	\$1.87 - \$6.00
Primus Telecommunications Group Inc.	PRTL	\$85.46M	\$651.69M	19.3x	\$1.15B	\$33.74M	\$0.75	\$0.51 - \$1.33
Time Warner Telecom Inc.	TWTC	\$1.80B	\$2.71B	10.6x	\$723.34M	\$255.99M	\$15.02	\$5.01 - \$18.73
US LEC Corp.	CLEC	\$111.16M	\$216.87M	4.0x	\$397.02M	\$54.79M	\$3.61	\$1.51 - \$4.74
XO Holdings, Inc.	XOHO	\$936.95M	\$1.09B	17.5x	\$1.42B	\$62.33M	\$5.15	\$1.76 - \$5.53

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