VoIPLogic

US Interconnected VoIP Service Providers

Review of Company Demographics, Sales Focus and Technology

September 10, 2013

Market Research Report

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VoIP Logic is a managed services provider of Voice over Internet Protocol (VoIP) technology to carriers and service providers. By providing leading technology in a Platform-as-a-Service (PaaS) delivery model, VoIP Logic allows our Service Provider partners to dramatically reduce the cost and complexity of running a communications service. With our geographically dispersed, redundant infrastructure providing unparalleled uptime, Service Providers can design and incorporate technology systems and solutions into their interconnected VoIP or other services with a high level of control, with substantial economies of capital and operations while working with an experienced and credentialed engineering team. As a platform-only provider, we are 100% neutral and focused on the success of our partners. VoIP Logic is based in Williamstown, Massachusetts.

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Introduction - Focus, Methodology and Notable Results

This paper provides a snapshot of active US based interconnected Voice over Internet Protocol (iVoIP) Service Providers - as defined by Federal Communications Commission licensing status[1]. Our sub-target of interest within this group is small and medium-sized iVoIP Service Providers (overall sub-set mean annual revenue estimated at $18M) who provide VoIP technology as part of a Residential, Hosted PBX or other Unified Communications ("UC") service offering. We were interested to learn what services are bundled with VoIP technology, what technology is used to serve which target customers and demographic data points on the Companies that make up this unique sub-set of VoIP Service Providers.

The data presented was collected directly and indirectly from a sample size of 48.3% of all actively licensed FCC iVoIP Service Providers as of June 11, 2013 (472 out of 977). Data was collected during the months of June, and July 2013. Statistical information includes all VoIP and other communication-related services offered by the target Service Provider class - including wholesale and retail, business and residential, voice and data.

Many of the iVoIP Service Providers report on multiple offerings that crossed boundaries of VoIP technology through their bundling of Internet services, data services, and, generically, information technology ("IT") services. Here is a summation of some of the notable results:

- More small and medium-sized iVoIP Service Providers offer Hosted PBX services than offer SIP Trunking.
- Bundling of other communications services and IT services with Business VoIP is the rule rather than the exception.
- Just over half of iVoIP Service Providers pre-date the invention of viable VoIP communication (circa 2000) and, therefore, the new services represent business evolution rather than new enterprise creation.
- Core application server technology is significantly linked with target market. IVoIP Service Providers who use Asterisk and other open-sourced variants more commonly target Residential and SOHO customers while users of more established technology - most notably BroadSoft's BroadWorks – more commonly target SMBs and large businesses ("Enterprises").
- IVoIP Service Providers are concentrated in the northeast, south, and pacific coast, with New York, Florida, Texas, and California dominating by both iVoIP Service Provider headquarters locations and by where providers are licensed to offer their services.
- Polycom and Cisco hardware dominate the customer premise equipment ("CPE") market.
- Softphone clients, while popular on the desktop for use with Over-the-Top ("OTT") services, have not been popular as primary telephone interface options for business or residential users.

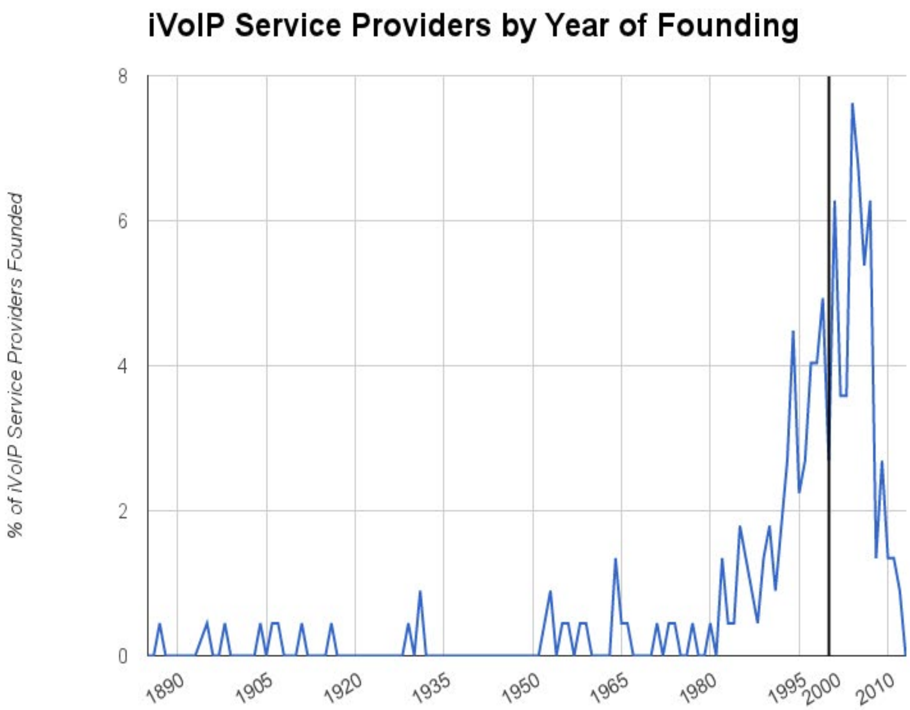
The aggregation and analysis of this data has elucidated a number of emerging and established sales and technology trends among small and medium-sized iVoIP Service Providers of Residential VoIP, Hosted PBX, UC and other VoIP technology based services. For a more detailed presentation and analysis of the data set please see the graphs below.

The FCC defines Interconnected VoIP services as those that 1) enable real-time, two-way voice communications; 2) require a broadband connection from the user's location; 3) require compatible consumer premises equipment; and 4) permit users to receive calls from and terminate calls to the public switched telephone network.

Service Provider Demographics:

Company Origin

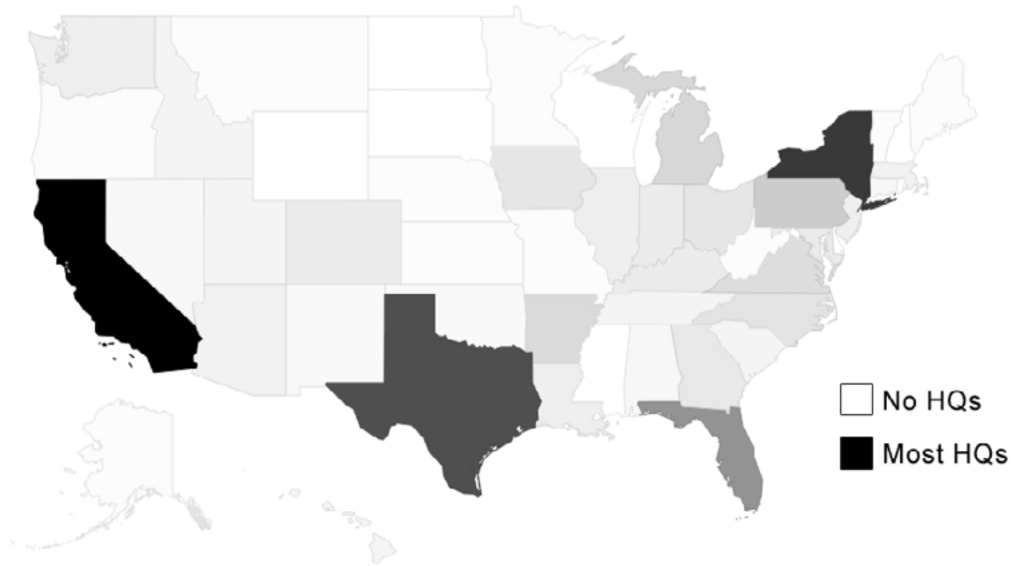
Figure 1



Many of the current iVoIP Service Providers were founded in a period that corresponds closely to the maturation of VoIP technology as a revenue generating service offering around and after the year 2000. In 2004, the peak year for founding of new iVoIP Service Provider Companies' almost 8% of the current market of active operators came online. However, the presence of a significant number of companies founded prior to the VoIP boom of the past 13 years (50.2% established prior to 2000) demonstrates the continued evolution of established communications Service Providers and, in particular, the participation of operators that bundle traditional and next generation communication services in the VoIP market.

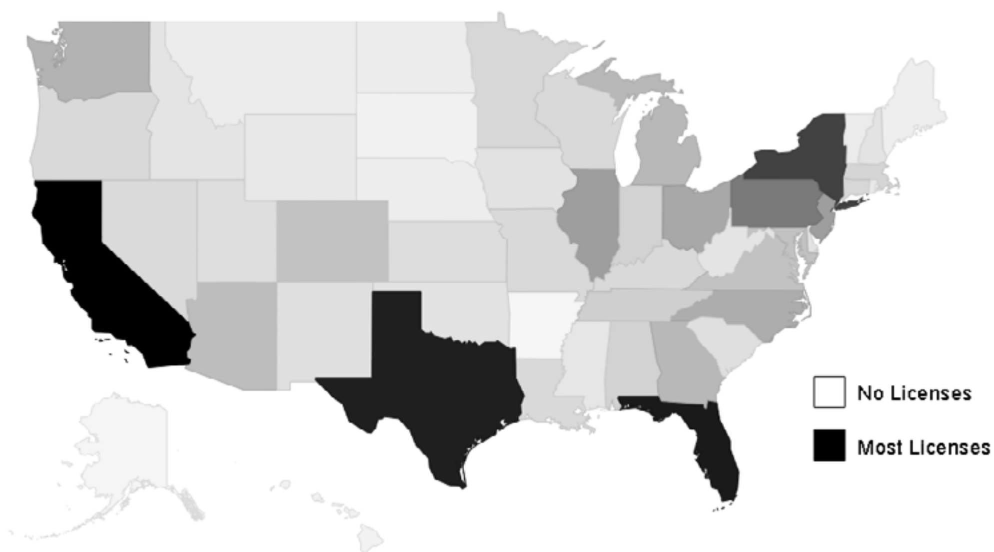
Headquarter Locations:

Figure 2



Distribution of Service Footprint (by FCC iVoIP License):

Figure 3

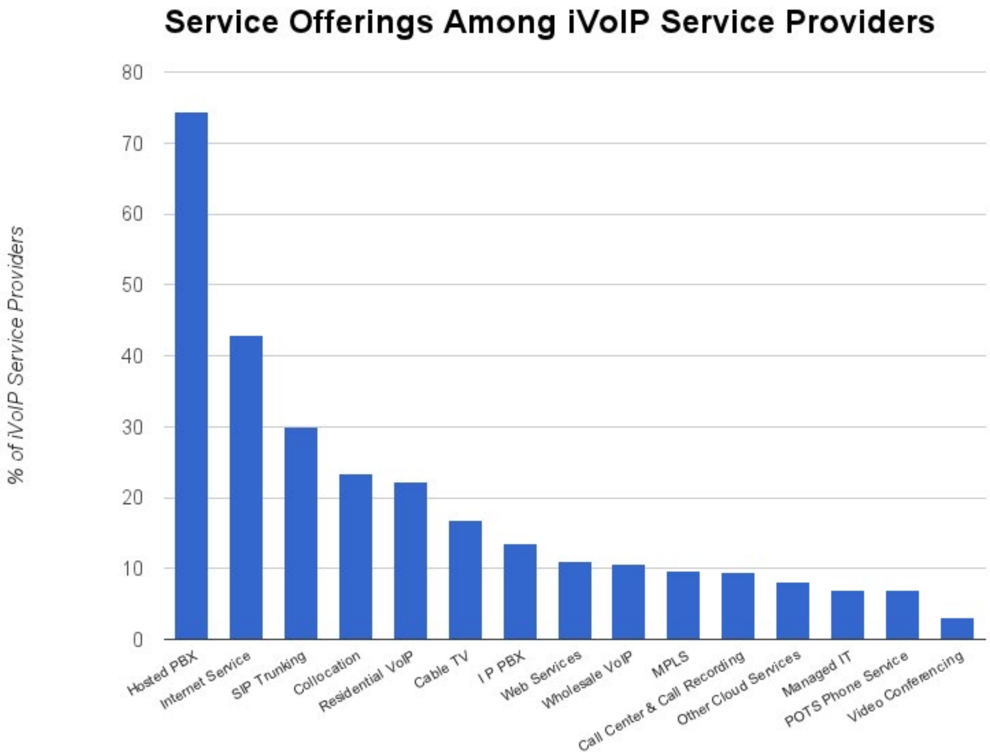


VoIP services are available in every state in the United States. As illustrated above, iVoIP Service Providers are concentrated in a few coastal centers around the country, with the states of New York (9.8%), Florida (7.2%), Texas (9.1%) and California (11.3%) dominating in terms of number of native providers. Most iVoIP Service Providers are licensed to sell services in multiple jurisdictions though New York (2.8%), Florida (3.0%), Texas (2.9%) and California (3.1%) are still substantially more popular than other states. These states are also the largest population centers in the country making this data consistent with expectations. Interestingly, many operators not native to the aforementioned four states sell into these markets making these heavily populated areas more competitive for iVoIP Service Providers selling against each other.

Sales Focus:

Service Offerings

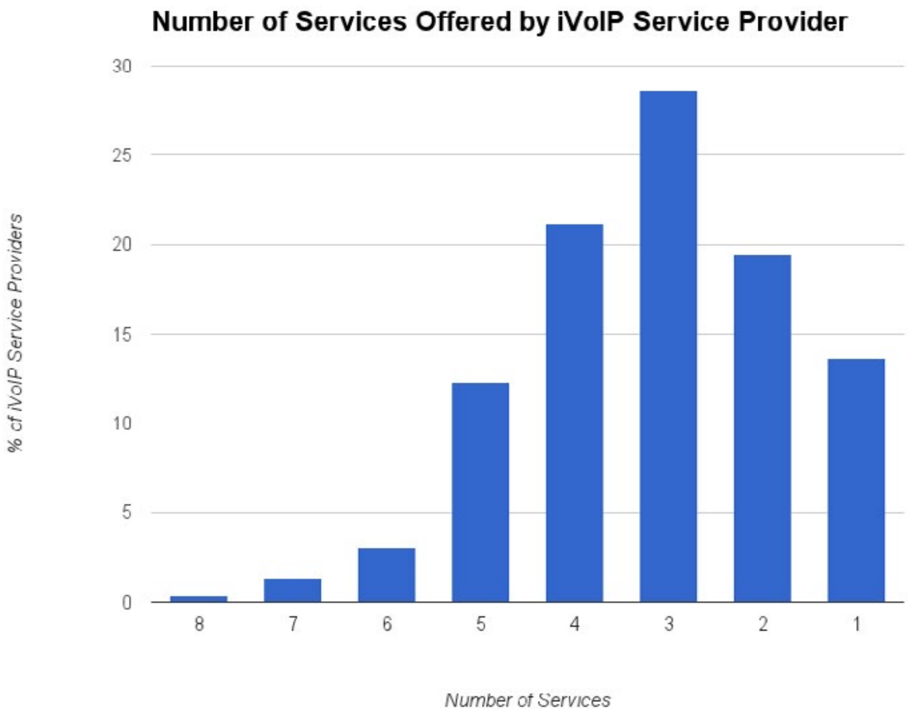
Figure 4



Hosted PBX is by far the most common service offering among all iVoIP Service Providers, with 74% of all small and medium-sized providers supplying the service, followed by Internet Service (42.8%), SIP Trunking (30%), and Residential VoIP (22.2%). Following on current trends in VoIP services, it was our expectation that SIP Trunking – an easier service to deploy – would be the most prevalent. Also, a negligible amount of smaller operators offer the true quadruple play of mobile telephone service, Cable TV, Internet access and land line telephone services - while the triple play (the same services without mobile) is offered by most of the providers who deliver Cable TV.

Number of Services Offered

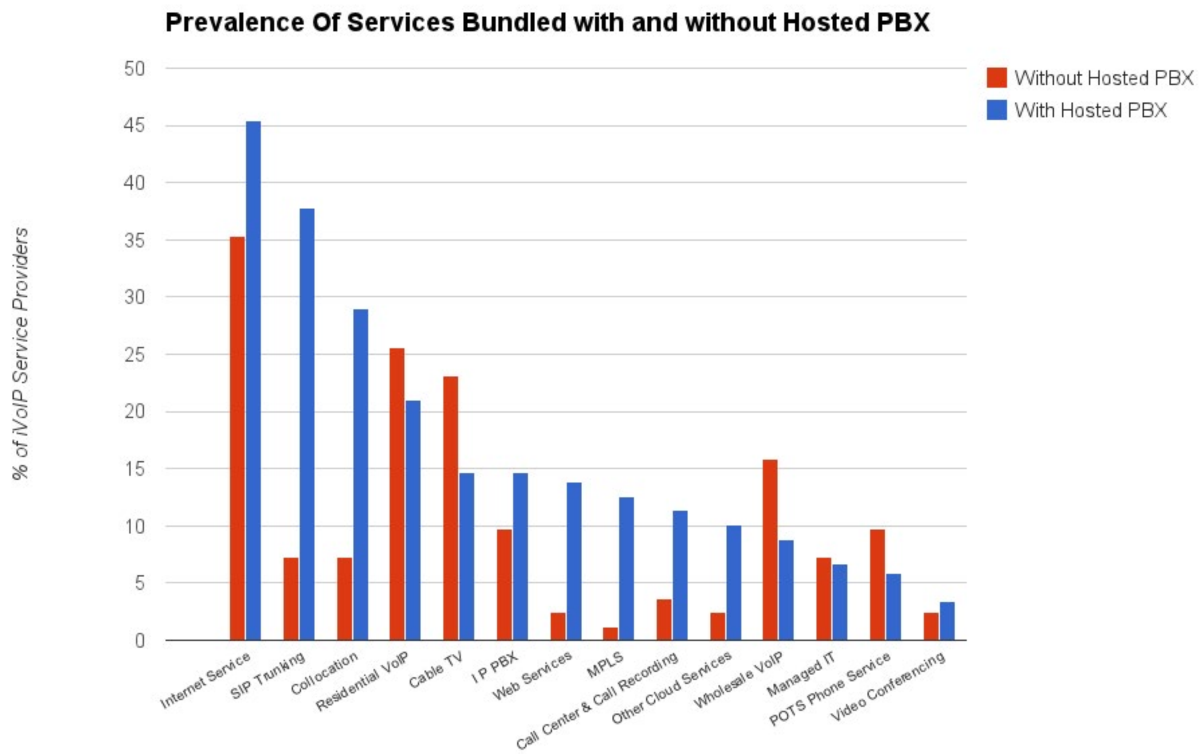
Figure 5



IVoIP Service Providers commonly sell multiple VoIP and non-VoIP services. Providers most commonly offer three services (28.7%), followed by four and two services, at 21.2% and 19.5% respectively. The average number of services sold by individual small and medium-sized iVoIP Service Providers is 3.2.

Bundling of Services

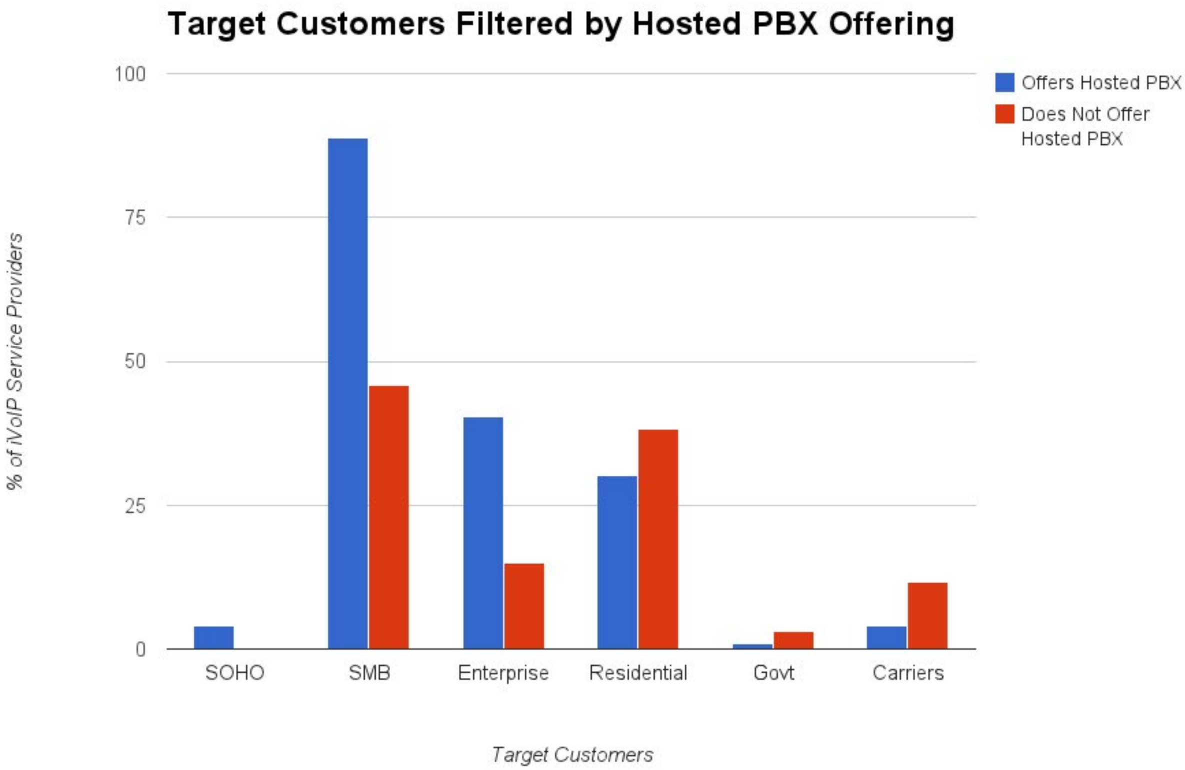
Figure 6



There are significant differences in the other services sold by iVoIP Service Providers that also deliver Hosted PBX among their options when compared to providers that do not offer Hosted PBX. While much of the divergence is easily explained by certain iVoIP Service Providers selling primarily to businesses while others focus towards residential users, there are a number of services offered with surprising parity. These include Managed IT, Video Conferencing and IP PBX. The services offered most commonly among providers that do not sell Hosted PBX are Internet Service (34.5%), Cable TV (23.2%) and Wholesale services (15.9%).

Target Customers

Figure 7

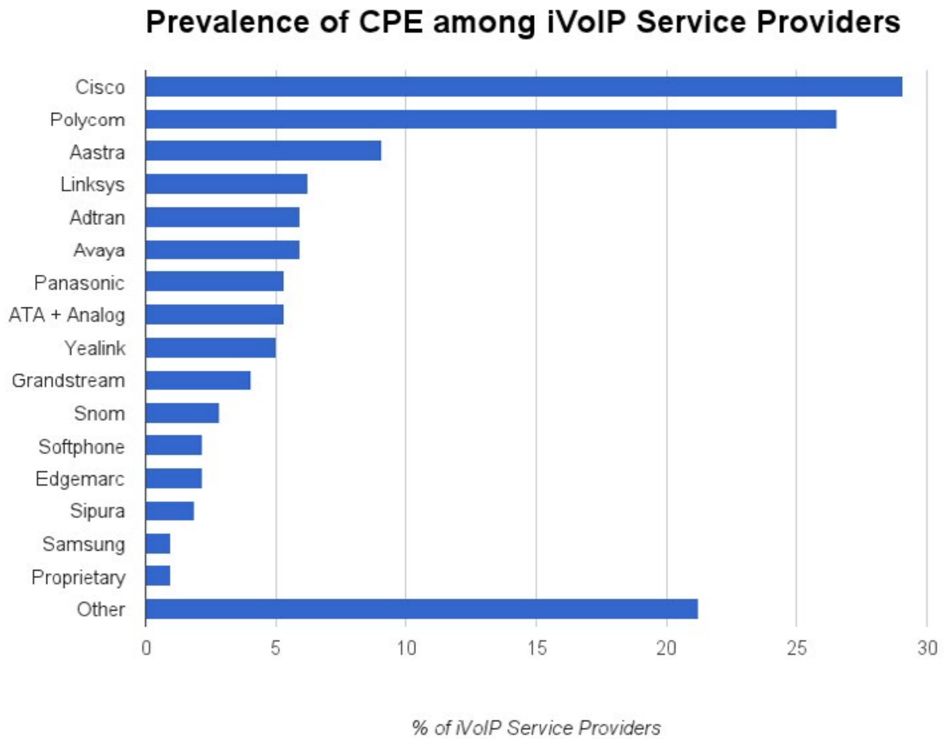


IVoIP Service Providers that offer Hosted PBX as one of their services concentrate overwhelmingly on SMB (89%), followed by Enterprise (40.3%) and Residential (30.1%). Among providers not offering Hosted PBX, the most significant targets were SMB (45.7%), Residential (38.3%), and Enterprise (14.9%). Although the specialization of providers of Hosted PBX in SMB and enterprise is evident, the significant participation of iVoIP Service Providers that do not offer Hosted PBX in the SMB market indicates that these providers offer other business services and are now potentially trending towards the more lucrative business communication services market.

Technology:

Prevalence of Customer Premise Equipment

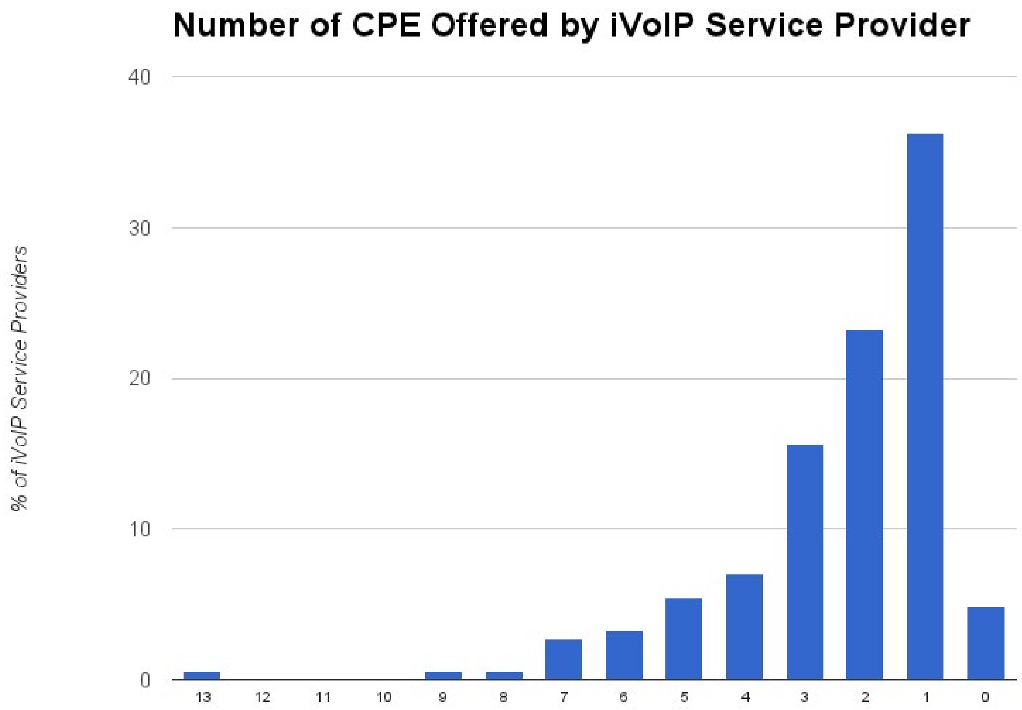
Figure 8



There are a large number of competitors in the CPE market that represent both different manufacturers, different types of customer premise technology (analog telephone adapters, SIP telephones and multi-line integrated access devices) and, non-equipment based softphones. In this crowded market, Cisco (29.1%) and Polycom (26.6%) dominate. Interestingly, in spite of its growing appeal, softphone desktop and mobile clients remain basically an add-on to traditional desktop telephones with only 2.1% of iVoIP Service Providers offering softphones as a 'stand-alone' option. More in depth data suggests that CounterPath's Bria software dominates in this small, but growing, niche. As the use of softphones becomes more prevalent, we anticipate listing manufacturers individually in this category. The large "Other" category of CPE is comprised of manufacturers representing less than 1% of market share and non-reporting of data by polled iVoIP Service Providers.

Number of Customer Premise Equipment Options

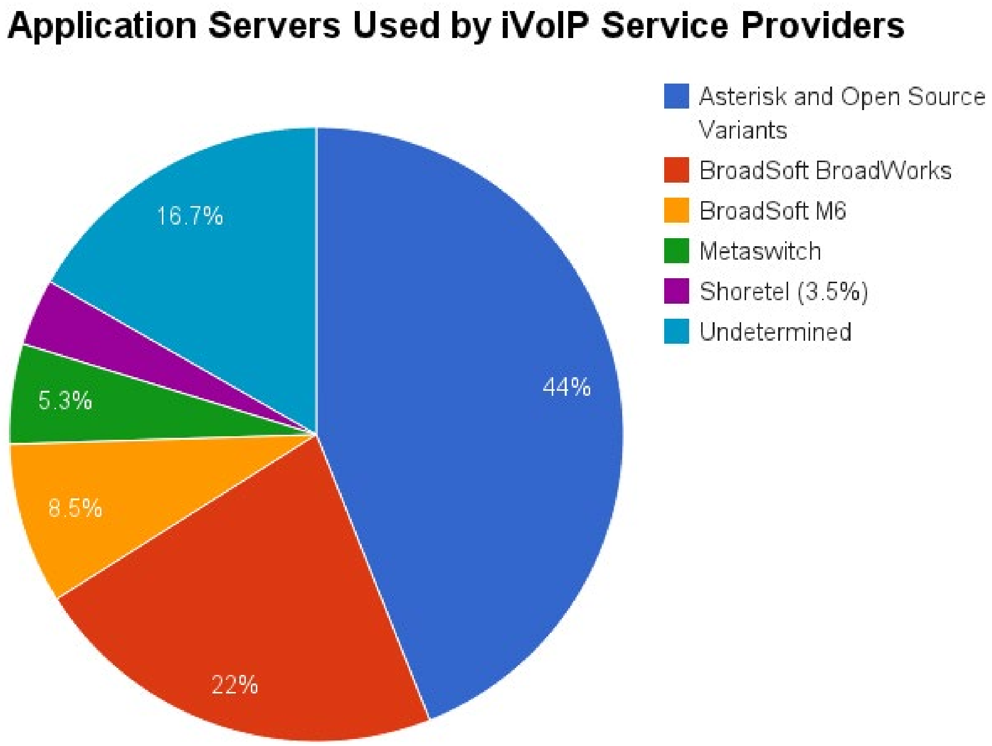
Figure 9



IVoIP Service Providers most commonly settle on a preferred brand or two of CPE. Most commonly, providers offer a single brand (36.2%), followed by two options (21.2%) and three options (15.7%). The average number of CPE supported by iVoIP Service Providers is 2.4. The outliers in the data – offering 8, 9 and 13 options – are potentially indicating an emerging trend of Bring Your Own Device (BYOD) which has taken hold in mobile technology but is much harder to support in VoIP because of telephone configuration and support requirements.

Application Server

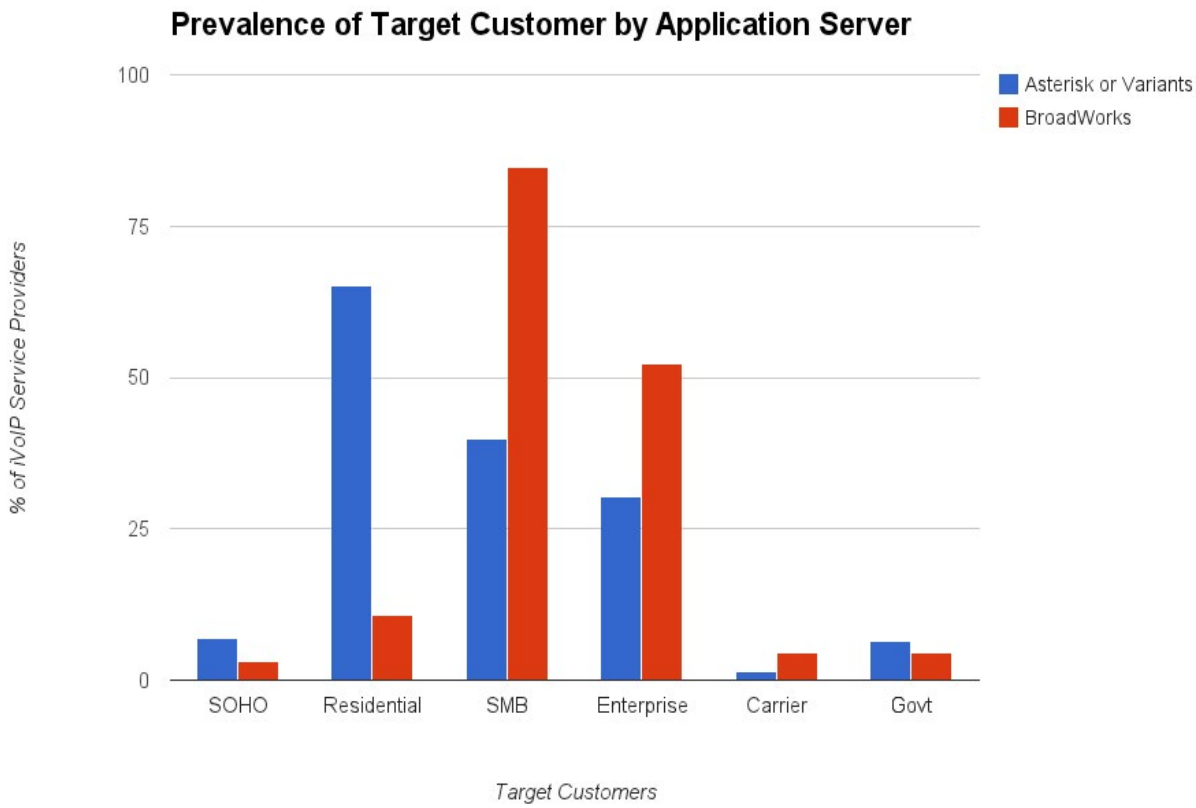
Figure 10



Among iVoIP Service Providers, the most commonly deployed application server is Asterisk, or one of its open-source variants (Freeswitch, FreePBX, PortaOne, 2600hz, etc.), with 44% market share. With our focus in this report on polling small and medium-sized iVoIP Service Providers, this large number comes as no surprise. Asterisk represents a low overhead method of market entry available to technically savvy individuals and organizations. At the opposite end of the cost spectrum, the second largest group of providers uses BroadSoft's BroadWorks platform (22%). The remainder use Metaswitch technology, Shoretel, BroadSoft's M6 and other unspecified or unknown technology, some of which is potentially proprietary or another Asterisk variant.

Application Server by Target Customer

Figure 11



A deeper look at the application server data reveals that the target customers associated with the less capital intensive Asterisk technology users are heavily weighted to Residential (65.2%), and SMB (39.8%) with lower emphasis on Enterprise (30%). Inversely, BroadWorks users are focused almost exclusively on serving SMB (84.6%) and Enterprise (52.3%) with very little targeting of Residential and SOHO customers.

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