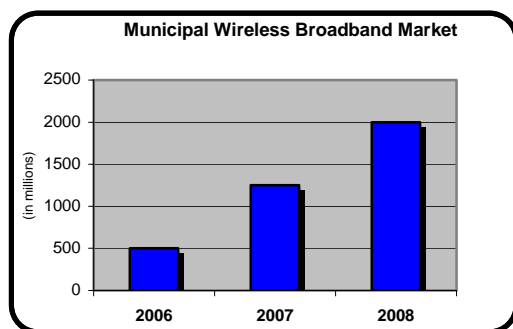


INTRODUCTION

The wireless mesh networking industry, a segment of the wireless communications industry, has experienced significant growth as public awareness increases and technological standards improve. Instead of limited hotspot technology, mesh wireless providers are able to extend wireless capabilities across larger distances. As a result, large-scale mesh networks and their applications are in high demand. Victory Partners believes this industry will experience double-digit growth over the next 18-24 months.

INDUSTRY OVERVIEW

The wireless broadband market is expected to reach \$1.0B by 2007. According to Maravendis Inc., several segments of the industry are projected to experience double-digit growth. For example, customer premise equipment manufacturers and base station manufacturers are expected generate a compounded annual growth rate ("CAGR") of 45.0% and 25.0% respectively. Acceptance of industry services has resulted from improved cost-effective technology as well as increased consumer knowledge of benefits. As a result, the industry is currently experiencing a high level of demand from both the public and private sectors throughout the world. Once the technological platform is firmly established, consumer needs for speed, mobility, reliability, business growth, and the integration of public services will continue to drive demand.



Source: Input

According to Value Line Publishing, the largest players in the wireless mesh networking industry have experienced revenue growth of 15.0-20.0% in 2005. These include Motorola, Cisco, and Nortel. However, dozens of smaller businesses operating within an unlicensed bandwidth spectrum have dominated the market to this point. According to Yankee Group, these companies are able to test the business model and develop industry pricing with minimal capital invested.

Yankee Group said it expects standardization of mesh technology to occur in late 2007. This standardization will

drive the shift from small to large vendor dominance, with a high level of M&A activity expected to occur. Currently, while networks are based on 802.11 standards, the mesh algorithms are unique and prevent systems from meshing with other systems. Standardization will create a standard bandwidth, making the mesh a commodity with which many of the start-up businesses will not be able to compete with larger communications giants.

Municipality Mesh Framework: As traditional technology shifts to the enhanced standards of mesh, the updated technology is expected to satisfy municipal infrastructure demands. The demand for improved networking infrastructure is driven by the interest of educational/corporate campuses and municipalities in mesh networking capabilities. The CEO of a network integrator explains, "Broadband wireless networks are the fastest, lowest cost and simplest way to increase broadband availability. Municipal broadband wireless networks do not require digging up streets, complex RF engineering, or expensive subscriber devices." Muniwireless.com states that it expects "growth for municipal wireless networks to reach 128.0% year over year growth by 2007."

Establishing a wireless mesh network in a community can aid business development, improve public services, and provide an opportunity for public wireless access. Almost every segment of public services can utilize the wireless network to its benefit including: fire and rescue, public safety, EMS, law enforcement, meter reading, surveillance, and traffic monitoring. This maximizes the human and capital resources of a community at a fairly low cost, while also developing a dynamic business environment. Instead of a general market focus, municipal mesh vendors have targeted these vertical opportunities previously unaddressed.

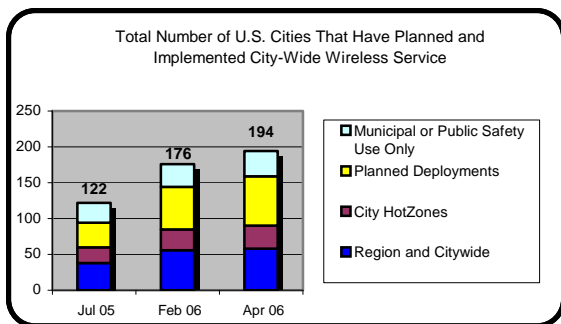
THE FUTURE FOR VENDORS

To be competitive, network system integrators must be able to create cost effective and reliable systems. Power efficiency and quality equipment enable these requirements that, if gained, allow players greater market penetration. With low cost and proven quality through several deployments, a vendor gains credibility that creates further opportunities to penetrate the market. According to Yankee Group, Tropos Networks and BelAir Networks, Inc. currently have the leading market share, with 200 and 120 deployments respectively.

Technological Versatility: The Yankee Group has suggested some significant versatility criteria that they believe creates protection for players in this dynamic

industry. These include the ability to create applications that fit multiple operating scenarios, provide integration opportunities, enable scalability, and provide the robustness needed in the public Wi-Fi environment. While smaller integrators do not currently have the nation-wide visibility to implement many municipal networks, versatility will allow them to compete more strongly for future contracts.

Input Costs: According to wimax.com, standardization of Wi-Fi “will reduce equipment and component costs through integration and economies of scale that will, in turn, allow for mass production at a lower cost.” As increased volumes of broadband units are set up in homes and wireless networks are constructed in municipalities, chipsets and other inputs will decrease in cost. In time, a decrease in input cost will create cheaper services and ultimately more widespread demand.

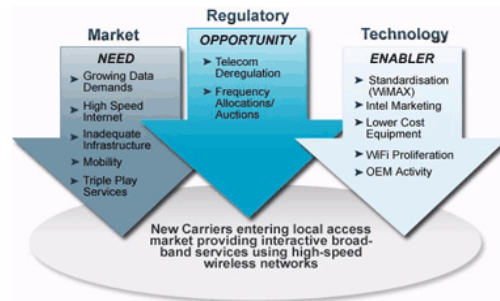


Source: munireless.com

RISK FACTORS AND CURRENT CHALLENGES

The current challenges of implementing mesh networking systems are found mainly in security, roaming, latency, scalability, and incremental deployment. For example, hackers could enter the public safety system, creating a potentially hazardous impact. If a hacker can gain access, he will have the opportunity to gain unlimited access to the public safety system. Latency is defined as wasted time in network systems and is caused by the large number of nodes. This problem limits the efficiency of a large deployment. Last, only dual or multi-radio mesh is scalable, as single radio mesh is weakened with a large number of access points, creating an obstacle to incremental deployment.

A significant level of risk is inherent in this industry as the technology is constantly changing. The speed and evolution of the technological change demand that the business plans of industry players are flexible in their ability to adopt and implement new technologies into their product and service offerings.



Source: maravedis-bva.com

REGULATORY ENVIRONMENT

One key regulatory issue involves local governments seizing the opportunity to provide Internet service at little or no cost. However, the American Public Power Association states, “Fourteen states have passed laws restricting public entities from competing with private companies in providing telecommunications services.”

Enacted as a result of terrorist concerns, continuous surveillance of public water sources is now required by federal mandate. As long as terrorism concerns remain heightened, the demand for wireless networks that enable municipalities to efficiently and cost-effectively comply with these mandates will continue to rise.

RECENT M&A TRANSACTIONS IN THE WIRELESS NETWORKING MARKET

The wireless mesh networking industry is highly fragmented with several transactions occurring in the last year. iPass, Inc. acquired GoRemote Internet Communications, Inc., a leading provider of virtual business network services, in December 2005. GoRemote was purchased for approximately \$72.2M in cash. This represents a transaction multiple of 1.61X revenue (price/revenue). In November 2005, Alltel acquired Midwest Wireless for approximately \$1.1B in cash, representing a transaction multiple of 4.53X revenue. Midwest is an Internet service provider that offers fixed wireless Internet access for homes and businesses. YDI Wireless, Inc. acquired KarlNet, Inc. for approximately \$9.5M in cash and stock, representing a transaction multiple of 2.50X revenue. KarlNet develops software solutions for wireless networking and extended range wireless applications. Based on the transactions described, the mean acquisition multiple for the last year was 2.88X revenue. A high level of M&A activity is expected to continue in the near to intermediate term.

Victory Partners, LLC is actively involved in analyzing and representing companies in the Wireless Mesh Networking Industry, having provided financial advisory services, performed recapitalizations, and completed M&A transactions for middle market companies.

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