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New HD Executive Videoconferencing System from Polycom

As we previewed in our WRB Vol 8 #21 June 25, Polycom has formally announced the HDX 4000 high definition executive videoconferencing system with support for HD video and PC graphics (data). As indicated by the photos, the system is an all-in-one device suitable for executive desktops as well as small conference rooms. Key bullet points include:

- 20 inch 16:9 display, 1680x1050, (720p video at 1-4Mbps) that can double as PC monitor
- Built-in HD camera (5 MPixel) with PTZ (electronic)
- Codec supports 4CIF video at 256kbps
- Dual microphones and stereo surround sound and 22kHz support
- High fidelity speakers and downward directed subwoofer
- Integrated telephone keypad
- POTS interface for phone add-in, also doubles as speakerphone
- Floating user interface that allows users to control the video system, either answering or dialing a video call, without disrupting the documents or applications they are working on.

North America list price starts at US \$7,999 for the HDX 4001 which is an SD-only 480p system. The pricing for the HDX 4002 with full HD support was not announced.



Comments: This is one very sexy design with outstanding on-paper performance. We can't wait to get our hands on one. Look for great success in the small conference room; the question remains whether enterprises will spend this much money for personal conferencing and collaboration solutions.

Dollars & Sense

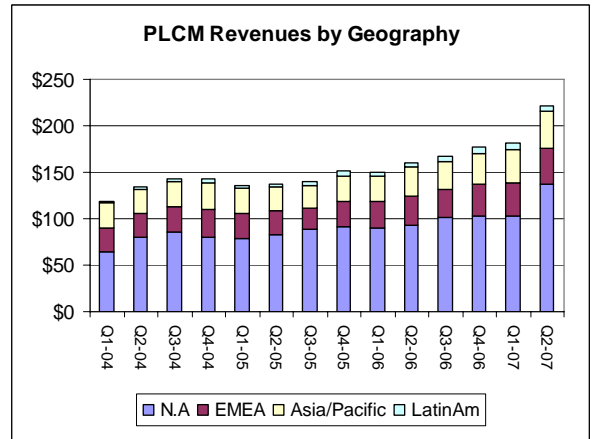
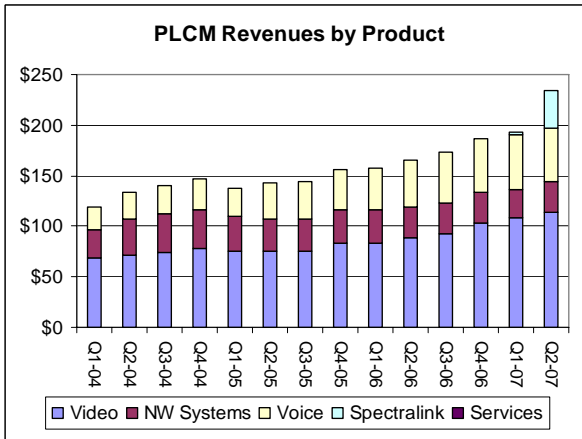
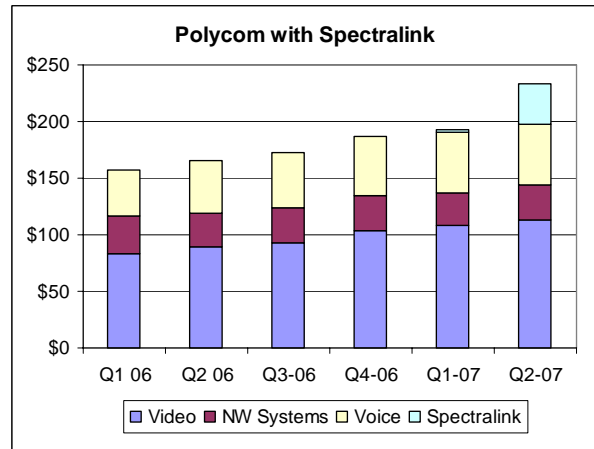
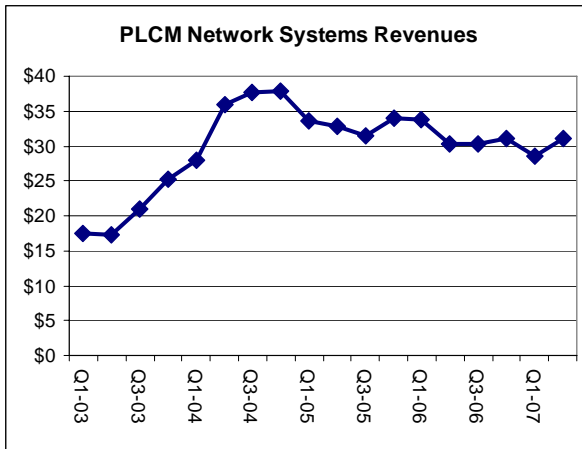
Videoconferencing Industry Continues to Rock & Roll

Polycom Q2-2007

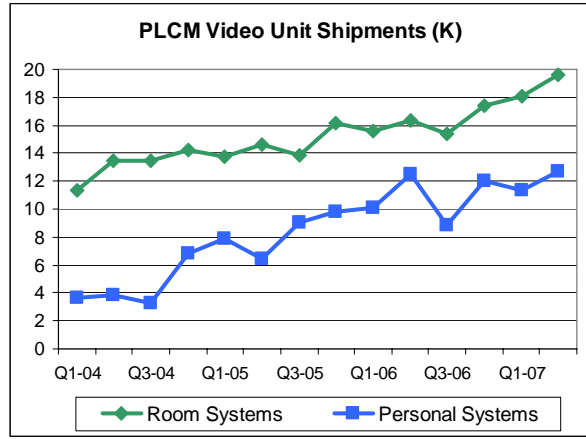
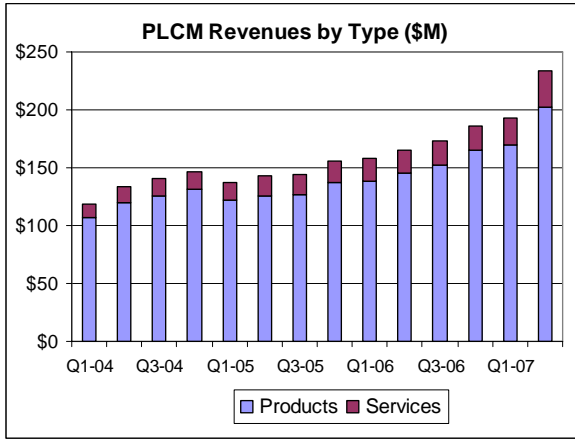
PLCM	Q2 06	Q1-07	Q2-07	Seq Growth	Annual Growth	Seq w/o Spectra	Annual w/o Spectra
Video	\$89.0	\$108.0	\$113.3	4.9%	27.3%	same	same
Network Systems	\$30.2	\$28.6	\$31.0	8.4%	2.6%	same	same
Voice	\$45.8	\$56.1	\$89.6	59.7%	95.6%	-1.5%	16.2%
Total Rev	\$165.0	\$192.7	\$233.9	21.4%	41.8%	3.6%	19.7%
Group Units	16,324	18,045	19,582	8.5%	20.0%	same	same
Op Inc.	\$17.6	\$10.2	\$17.3	68.9%	-1.5%	NA	NA
N.A	\$92.8	\$102.7	\$137.1	33.5%	47.7%	5.9%	17.2%
EMEA	\$36.3	\$47.6	\$51.2	7.6%	41.0%	-9.5%	18.7%
Asia/Pacific	\$31.5	\$36.0	\$39.0	8.3%	23.8%	8.3%	23.8%
LatinAm	\$4.4	\$6.4	\$6.6	3.1%	50.0%	3.1%	50.0%

With strong results in the video business, and a return to growth for network systems, combined with additional revenues provided by the SpectraLink acquisition completed March 26, Polycom reported impressive results. Second quarter 2007 consolidated net revenues were \$233.9 million, compared to \$165.0 million for the second quarter of 2006. SpectraLink contributed \$36.4

million to net revenues for the second quarter of 2007 and \$2.1 million in Q1-07. While continuing to NOT break out sales for the high definition HDX product line, the company did reveal that sequential revenue growth for HDX systems was in the 20% range. As reported previously, Polycom has combined the video division and the network systems division into one business group dubbed video solutions; for the time being at least the company is reporting results according to the old and the new organizational structure. Our charts here are a bit more complex than usual since we are also showing the results with and without SpectraLink in order



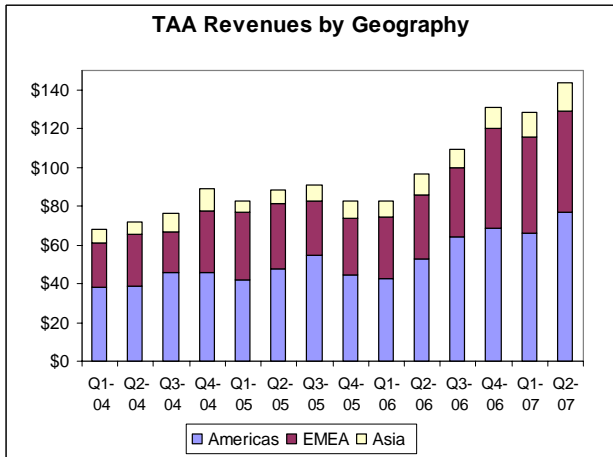
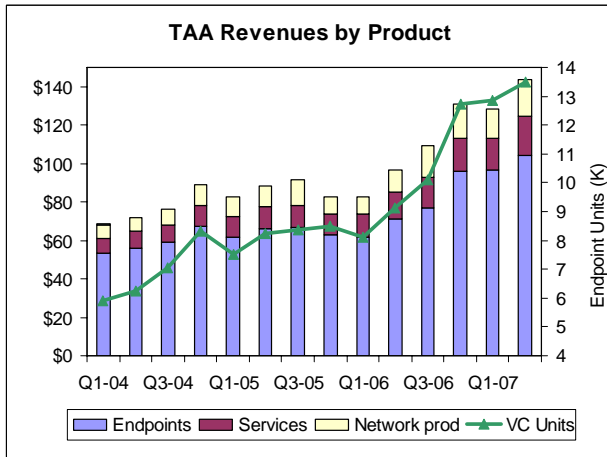
to make some apples to apples comparisons. As the numbers show, video endpoints grew at 20% in units and 27% in revenues, with HD obviously a strong component of this ASP growth while voice systems, on an organic basis, was down sequentially.



Tandberg Q2-2007

Tandberg turned in an unbelievable quarter, for the second time in a row. While Q1 revenues grew at an annual growth rate of 55.3%, growth in Q2 “slowed” to a 49% rate – all of this being generated organically rather than by acquisition. Indeed, the momentum continues. The annual numbers shown in our graph here are simply outstanding – impressive across all geographies and all product lines. During the earnings call, CEO Halvorsen was asked about HD in relationship to his total business and his response was that 80% of Tandberg’s systems (which crossed the 13,000 mark this quarter) shipped with an HD-capable camera. We’re not sure we believe this number, but the other numbers speak for themselves.

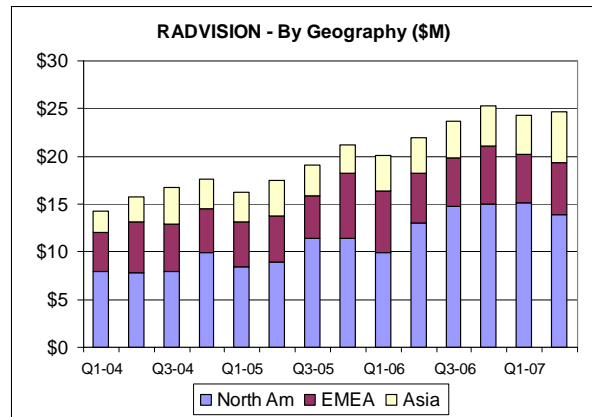
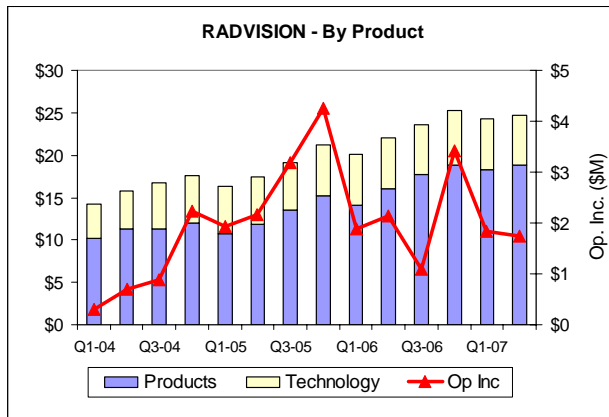
TAA	Q2 06	Q1 07	Q2 07	Sequential Growth	Annual Growth
Americas	\$52.8	\$65.9	\$77.2	17.1%	46.2%
EMEA	\$33.3	\$49.8	\$51.9	4.2%	55.9%
Asia	\$10.4	\$12.7	\$14.7	15.7%	41.3%
Total Rev	\$96.5	\$128.4	\$143.8	12.0%	49.0%
Endpoints	\$71.4	\$96.6	\$104.2	7.9%	45.9%
Services	\$13.5	\$16.7	\$20.1	20.4%	48.9%
Infrastructure	\$11.6	\$15.1	\$19.5	29.1%	68.1%
Op Inc	\$20.7	\$29.2	\$33.3	14.0%	60.9%
Endpoint Units	9,148	12,866	13,512	5.0%	47.7%



RADVISION Q2-2007

RVSN turned in solid, if unspectacular, results for the quarter, driven by strong growth in AsiaPac. The company's North American results appear weaker than they might otherwise because Q2 of last year had a strong contribution from Cisco and the DISA-II project which has since ended. Without DISA, the "organic" growth number would be over 40%. In the earnings call, Radvision reported \$1.6M of Click to Meet revenues and \$2.6M from 3G customers.

RVSN	Q2-06	Q1-07	Q2-07	Sequential Growth	Annual Growth
Products	\$16.0	\$18.3	\$18.8	2.7%	17.5%
Technology	\$6.0	\$6.0	\$5.9	-2.0%	-2.0%
Total Sales	\$22.0	\$24.3	\$24.7	1.6%	12.2%
NA	\$13.0	\$15.1	\$13.9	-8.0%	6.8%
EMEA	\$5.3	\$5.2	\$5.5	6.9%	4.3%
Asia	\$3.7	\$4.1	\$5.3	30.7%	42.7%
Op Inc.	\$2.13	\$1.84	\$1.74	-5.4%	-18.4%



The Comparison

		Q1-06	Q4-06	Q1-07	Sequential Growth	Annual Growth
PLCM	Video units	16,324	18,045	19,582	8.5%	20.0%
TAA	Video units	9,148	12,866	13,512	5.0%	47.7%
PLCM	Video revenues	\$89.0	\$108.0	\$113.3	4.9%	27.3%
TAA	Video revenues	\$71.4	\$96.6	\$104.2	7.9%	45.9%
PLCM	Infrastructure revenues	\$30.2	\$28.6	\$31.0	8.4%	2.6%
TAA	Infrastructure revenues	\$11.6	\$15.1	\$19.5	29.1%	68.1%
RVSN	Infrastructure revenues	\$16.0	\$18.3	\$18.8	2.7%	17.5%
PLCM**	Total revenues	\$165.0	\$192.7	\$233.9	21.4%	41.8%
TAA	Total revenues	\$96.5	\$128.4	\$143.8	12.0%	49.0%
RVSN	Total revenues	\$22.0	\$24.3	\$24.7	1.6%	12.2%

** includes results from SpectraLink acquisition

Still an outstanding quarter, but the Polycom (on an organic basis without the SpectraLink acquisition) and Radvision numbers may be approaching "strong growth" rather than "hyper-growth." Nevertheless, annual revenue growth rates in the 20% range are nothing to be sneezed at. We believe the benefits around HD and the excitement around telepresence, combined with interest in preserving the environment and extending visual collaboration to the desktop set the stage for a very healthy twelve months ahead.

Avistar Q2-2007

Avistar reported Q2 revenue of \$5.9 million, compared to revenue of \$2.4 million for Q1. Q2 revenues included \$4.0 million in licensing revenue from the recent licensing agreement with Radvision. Income from settlement and patent licensing was \$1.1M for Q2-07 and Q2-06, and was \$13.1M for Q1-07. As of June 30, 2007, Avistar had cash, cash equivalents and marketable securities of \$10.1 million.

News in Brief

- The West London Cancer Network with its 11 regional hospitals has selected inSORS' solution to implement a video-based telemedicine solution. Elements of the required solution included the ability to show across the network: x-ray film and PACS archives, data from hospital networked PC's, displays from the pathology lab, playback from a VCR/DVD, and hard copy images with freehand sketches

People & Places

Avistar, Lisa Farley, Director, Client Development and Adoption

Letters

From an email received from Premiere Global related to their recent announcement of an acquisition, "We will announce the company name on our IR call next week. They are an audio conferencing provider. The PR was a bit misleading. They are 'web-based' in the sense that they have a predominantly online, web sales channel versus a direct sales force model. They do not have an internal web conferencing solution."

One on One with Spire Global's Joe Sorrentino



I had a chance to meet up with Joe Sorrentino recently and see him in action on the InfoComm show floor.

WRB: I see you claim to be the exclusive US source for Sony videoconferencing. So, is Spire Global a new company, and are you really exclusive.

JS: Spire Global is a new company, independently owned, and formed by industry veterans, to become the exclusive source for Sony videoconferencing in the US. Sony Electronics will sell the videoconferencing product to Spire Global only – we are exclusive in North America – no other channel (reseller, distributor, VAR, etc.) can obtain these products directly from Sony.

WRB: Can you briefly explain your business model – distribution, direct sales, resellers, etc.

JS: Think of Spire Global as the manufacturer. We do not sell direct to end-users, we utilize a 2-tier model approach to the market through a handful of direct VARs and tier 2 resellers buying through distribution. We also employ a network of manufacturer reps that have

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relationships with some of the most dominant players in the A/V industry as well as with the AV consultants who spec video products for their clients. These reps can get us in places faster than we could and will be an extension of the Spire Global Channel sales team. The reps roles encompass demoing the products and educating and recruiting new resellers to the Spire Global family.

Our two new distributors, Jenne and Shoreview, were selected based on their experience in the video conferencing space as well as their having prior relationships selling other Sony products. Shoreview has been an exclusive distributor of Sony equipment other than VC products for years, and been quite successful with it - we have now enabled them to stock and sell the VC product line as well. I do not believe Jenne is a distributor for any other Sony products other than VC.

WRB: Manufacturer's reps?? How do they relate to the rest of your distribution strategy. Seems like they would compete with Jenne and Shoreview?

JS: Quite the contrary, the manufacturer's reps are a complement to our distribution partners – an extension of their sales team – not at all competitive. Their responsibility is to find new resellers and help them get up to speed on the Sony videoconferencing product line quickly and to help these resellers in sales opportunities. The reps do not purchase product, rather, they work with the resellers, referring them through distribution. Rather than have our regional sales managers calling on reseller partners and fulfilling the channel manager role, we look to our manufacturers reps to do this for us. They do not compete with the distributors but work in conjunction with them, and are paid off distribution sales out. This leaves our regional sales managers free to spend their time in front of end-users, finding business to fulfill through the channel.

WRB: This looks like a four step approach: Sony sells to you, you sell to a distributor who then sells to a reseller and then the reseller sells to the end user customer. Most people would say this is economically not possible in the videoconferencing business. What is your reaction to this?

JS: Actually the economics are quite simple and very possible. There really is no difference from the way Sony USA was procuring the product than how Spire Global is doing it today. Sony USA procured products from Sony Japan at a transfer price that had the manufacturing profit built in. Since Spire Global has taken over the sales and support operations for Sony, Sony has streamlined its US team. Sony is providing the R&D and manufacturing out of Japan, and Sony is able to sell the products to Spire Global at a transfer price that allows for competitive pricing in the marketplace while providing ample profit to pass through the channel. We are very competitive compared to the other players in the market based on our new pricing, discount strategy and 2-tier model.



WRB: Sony has been in this videoconferencing business for a long time, without a lot of success here in North America. Why do you think this is the case and why do you think Spire Global can turn around this situation?

JS; Look there are myriad of reasons that contribute to this perception in the marketplace, and in the last 5 months since joining Spire Global I have heard most of them. I believe the 2 biggest factors for the past performance had to do with a 100% dependence on resellers, and little emphasis on creating demand at the end-user level. But let's face it - some of the most dominant players in our space have been guilty of this at one time or another; you can't single out just Sony. I believe it all boils down to focus! Spire Global's only business is to grow the market for Sony IPela visual communications products.

WRB: Big ideas, but how are you doing this?

JS: With an increased focus on end-users. The Spire Global Regional Sales Managers are

spending all their time developing new business opportunities from the ground up and driving them back up the channel food chain to our reseller partners. So, instead of relying on our channels to bring us business, the Regional Sales manger's job will be to support our business partners in front of end-users - but more importantly to find business opportunities, engage the appropriate business partner, and close the business. Bringing business to the channel will allow us to gain recognition quickly and overcome resistance to embracing Sony video conferencing as a core product offering.

WRB: One of your sales pitches to distributors is “no certification required.” Can you explain this, and how does this benefit the ultimate end user customer if sales channel partners are not trained or certified?

JS: This pitch is intended for resellers who would purchase through distribution. The message is that there are no hurdles/barriers to begin reselling the Sony videoconferencing products. Given our market share here in the U.S. we have to take a more channel-friendly approach than our competitors. Our distributors and Spire Global's sales and technical teams are ready to jump into any opportunity to assist where the reseller may lack in terms of technical ability. We want resellers to be able to recognize a videoconferencing opportunity and then bring in “the team” to help close it. The reseller doesn't have to know everything technical before getting started with the Sony SD Video line and recommending it – they just need to be able to recognize the opportunity and pick up the phone. Let's face it these products have become easier to install and support over the phone, thanks in part to increased demand, as well as our competitor's success in the marketplace. Also, end-users can purchase the Spire Global maintenance package from their resellers. It's affordable and we have encouraged all of our resellers to quote it on every opportunity.

Sony's current HD videoconferencing product requires a greater level of technical knowledge, so our expectation is that only experienced videoconferencing providers will deploy and install this product. Currently we are limiting access to the HD products based on the capabilities of the channel partner and his commitment to train and hold demo equipment for these products.



WRB: Jenne has signed up previously with other VC vendors. Have they been successful in the past and how will you work with them in the future? Have they been partners with Sony in the past, but not in videoconferencing?

JS: Jenne has been a successful company in the video and audio conferencing space for a long time. I worked closely with them while I was employed at one of my largest competitors; they were successful in the space, easy to work with, and committed to the business. A little over a year ago they made a strategic decision to add a US field sales team, and a dedicated AV inside sale group to ensure continued success in the video space. Spire Global is leveraging this expertise now as we grow our business.

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