Wainhouse Research

The Wainhouse Research Bulletin

ONLINE NEWS AND VIEWS ON VISUAL COLLABORATION AND RICH MEDIA COMMUNICATIONS

We've begun compiling the videoconferencing endpoint statistics for Q3-05 and it looks like there are going to be some surprises to report. Details next issue.

*As always, please feel free to forward this newsletter to your colleagues. To be added to our **FREE** automated email distribution list, simply visit www.wainhouse.com/bulletin.*

Andrew W. Davis, andrewwd@wainhouse.com

News in Brief

- Vcall has released version 4.0 of the Vcall Web Conferencing platform. Key enhancements include additional branding capabilities, the ability to export data in CSV format, an improved presenter interface, improved slide quality, and automatic indexing of all archived events. In the near future, Vcall also plans to release 1) a dashboard function for reporting, 2) enhancements to the integrated registration manager, and 3) improved scalability.
- Conferral is about to release two new software solutions. A) Conferral Release 2.0 is a collaboration product for those who need to present PowerPoint, share applications, provide customer assistance, send large files, and show video. This software enables users to remotely watch others operate their PC or software applications to provide real-time support or take control of the remote PC. Screen scaling is also automatic. B) ConferFree is for PC users who want to present PowerPoint (from within PowerPoint) to remote viewers or receive customer support from Conferral 2.0 users. ConferFree is FREE.
- If you thought AT&T was going to disappear, that you were going to have to live in a world without Ma Bell to kick around, you can think again. SBC has decided to keep the AT&T name after the merger. Whew….
- The Verizon-MCI merger has been cleared by the US Justice Department and the FCC. We suspect that by the end of this year you won't have MCI to kick around any longer either.
- I have been informed that my pricing on the ClearOne Converge product was off (last week's newsletter). The $2,500-3,000 price mentioned was for the RAV product line; Converge pricing will be released in the next few weeks (expect something higher).
- The Arizona Office of Administrative Hearings (OAH), with 18 judges on staff, has elected to deploy a network of Aethra videoconferencing systems to reduce judges' travel time and to increase the number of hearings that can be accommodated each month.
- The LifeSize Room system is now shipping to channel partners worldwide. According to our secret sources hiding underground in Austin, the demo units are based on final hardware and pre-general availability software; the company is still testing and tweaking bits and pieces of the software in interoperability exercises. LifeSize channel partners have reportedly sold more than 60 LifeSize Room systems to 17 customers already. The company also announced new channel partners in Japan: Hitachi High-Technologies, Princeton Technology and TOWA Engineering. The company now has nine resellers in the Asia Pacific region covering Australia, China, Hong Kong, Japan, Korea, Malaysia, Singapore and Taiwan.

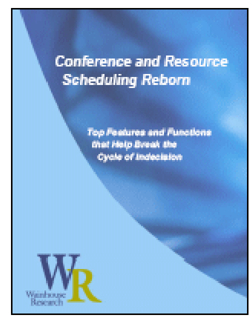
Call for Presentations: Berlin, 19-20-21 April, 2006

Wainhouse Research, in conjunction with our Diamond Sponsor, the European Union sponsored AMI project, is launching its second annual European Forum. The conference and technology showcase is aimed at business professionals, conferencing and collaboration managers, meeting facilitators, and information technology decision makers exploring unified collaborative solutions based on integrated audio-video-web-IM products and services. The event will be held at the 5-star Steigenberger Hotel in the center of Berlin. We invite presentations from industry experts and end users related to any of the following general areas:

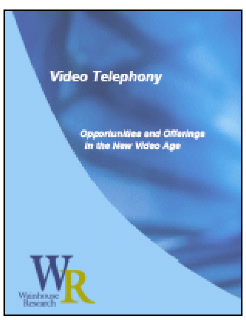
- Unified collaborative communications in the enterprise
- Presence-based IP communications
- Rich media solutions for the desktop
- IP telephony and foundations for next-generation voice services
- Deployment strategies for integrated services
- Next-generation meeting tools
- Rich media conferencing and collaboration solutions for government and education
- Hosted and managed services for collaboration

The deadline for submission is December 9, 2005. If interested, please send an email to rebecca@wainhouse.com with the following information: your name, your title, email address, company name, proposed title of presentation, and 50-word abstract. Additional details at www.wainhouse.com/berlin.

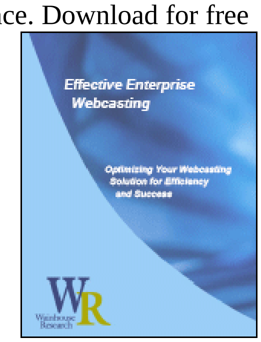
Four New White Papers from Wainhouse Research



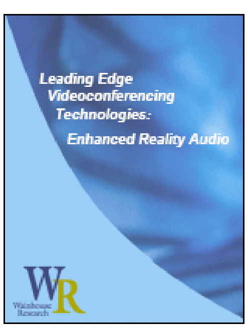
→ **Conference and Resource Scheduling Reborn** examines why enterprises fail to deploy comprehensive conference and resource scheduling solutions. The free white paper on both wainhouse.com and wrplatinum.com examines the analysis paralysis that grips enterprises seeking to solve their conference and resource scheduling needs, and describes the top features and functions that can help break the cycle of indecision.



← **Video Telephony: Opportunities and Offerings in the New Video Age** discusses a new model for video usage that is emerging - mainstream, user-oriented, ad hoc, on demand, desktop-based, and integrated into the daily workflow. Video telephony provides desktop video devices call control functionality including call transfer, call hold, call forward, mute, and conference. Download for free from wainhouse.com and wrplatinum.com.



→ **Effective Enterprise Webcasting** highlights the benefits of a hybid webcasting model, a strategy that combines hosted ASP and equipment-based CPE models. The key benefits of webcasting include ease of use for both meeting hosts and attendees, the ability to include high-impact, rich media content elements (including audio, live video, and PC-content), and significant economies of scale. Download for free from wainhouse.com and wrplatinum.com



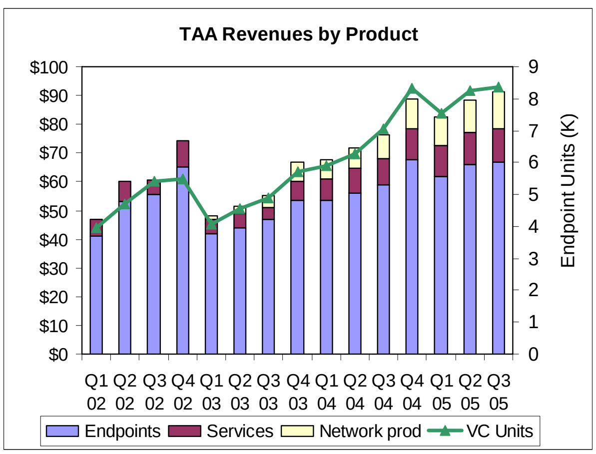
← **Leading Edge Videoconferencing Technolo-gies: Enhanced Reality Audio** summarizes the latest developments in audio technology for videoconferencing systems, including wideband implementations for improved intelligibility (G.711.1-Annex C and AAC-LD), stereo, and spatial processing. It also summarizes the current positions for five leading vendors. This paper complements a recent paper on HD video. Available to subscribers on wrplatinum.com.

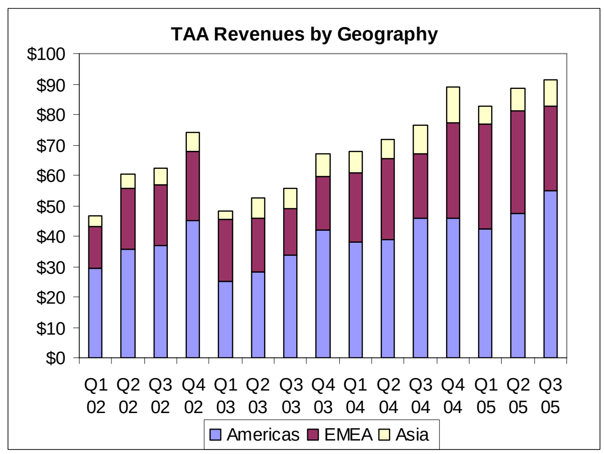
Dollars and $ense

TANDBERG – Q3/2005

TANDBERG reported Q3 revenues of $91.2 M, driven by shipments of 8,371 units. This represented a 19% year over year revenue growth, but apparently was below the financial industry consensus (whatever that means!) of $96 million. So, bottom line is that growth was strong, but lower than expected. The average selling price of the firm's videoconferencing endpoints fell (not much) to $7,998, down from $8,006 a year earlier. Infrastructure products generated $12.9 million in sales (bridges, gateways, gatekeepers, NAT-firewall traversal), up 53%. In the earnings call, CEO Andy Miller revealed that in North America, enterprise growth was 25% while federal systems growth was 14%, leading to an average of approximately 20%. As is obvious from our table, annual growth was challenged in Asia/Pacific while EMEA turned in a disappointing sequential growth. We believe that the unit shipments of video endpoints was a record for TANDBERG; correct us please if we got this wrong.

TAA	Q3 04	Q2 05	Q3 05	Sequential Growth	Annual Growth
Americas	$45.8	$47.5	$54.8	15.4%	19.7%
EMEA	$21.1	$33.8	$28.0	-17.2%	32.7%
Asia	$9.6	$7.2	$8.4	16.7%	-12.5%
Total Rev	$76.5	$88.5	$91.2	3.1%	19.2%
Endpoints	$58.9	$65.9	$67.0	1.7%	13.7%
Services	$9.2	$11.4	$11.4	0.0%	24.2%
Infrastructure	$8.4	$11.2	$12.9	15.2%	53.3%
Op Inc.	$20.0	$23.1	$23.6	2.2%	18.0%
Endpoint Units	7,040	8,238	8,371	1.6%	18.9%



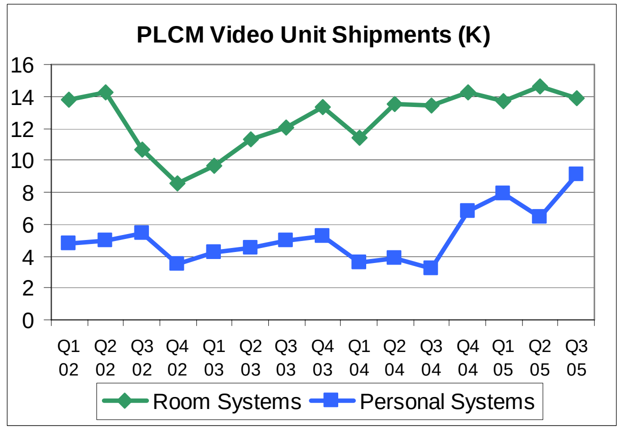


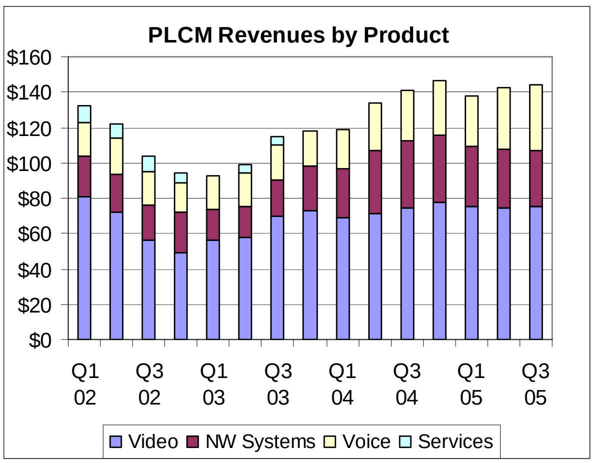
Polycom – Q3/2005

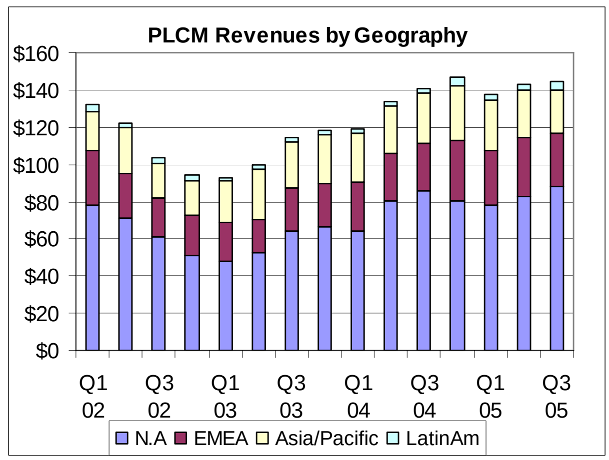
Polycom reported top line revenues of $144.4 million, up from $140.8 million one year earlier. Polycom's growth was driven by its voice product lines, and that segment of the company's business in turn was driven by its VoIP products. Group video systems numbered 13,841; desktop video units were reported at 9,062, no doubt driven by the company's PVX software. The company also revealed that it believes 57% of its overall product business was related to IP. As the table shows, Asia Pacific was a problem area this quarter,

PLCM	Q3 04	Q2 05	Q3 05	Sequential Growth	Annual Growth
Video	$74.4	$74.8	$75.6	1.1%	1.6%
Network Sys	$37.7	$32.9	$31.5	-4.3%	-16.4%
Audio	$28.7	$35.0	$37.3	6.6%	30.0%
Total Rev	$140.8	$142.7	$144.4	1.2%	2.6%
Group Units	13,471	14,642	13,841	-5.5%	2.7%
Op Inc.	$13.1	$19.3	$19.8	2.5%	51.1%
N.A	$85.9	$82.8	$88.1	6.4%	2.6%
EMEA	$25.3	$31.4	$28.9	-8.0%	14.0%
Asia/Pacific	$26.8	$25.7	$23.1	-10.1%	-13.6%
LatinAm	$2.8	$2.9	$4.3	51.8%	53.8%

and overall, results were disappointing for the company's flagship video product line, and very disappointing for the network systems group. The company said much of the revenue shortfall was due to orders arriving late in the quarter; hence the company exited the quarter with a large backlog. Nevertheless, the overall numbers for Q3, the increasing competition coming from multiple directions, and the company's guidelines for Q4 suggest that the bloom might be coming off this rose.







RADVISION – Q3-2005

RVSN reported Q3 results that at first blush (my second blush is below) look impressive. Revenues reached a record $19.1 million, up 14% sequentially and 19% annually. Results were driven by a strong showing in North America. Asia Pacific was weak for the company (a trend across the industry), in this case stymied by management & distribution changes. North America in turn was driven by a strong showing in the federal market.

RVSN	Q3-04	Q2-05	Q3-05	Sequential Growth	Annual Growth
Products	$11.4	$11.9	$13.5	13.8%	19.0%
Technology	$5.3	$5.6	$5.6	-0.4%	4.3%
Total Sales	$16.7	$17.5	$19.1	9.3%	14.3%
NA	$7.9	$8.9	$11.4	27.5%	42.9%
EMEA	$5.0	$4.9	$4.5	-7.1%	-8.4%
Asia	$3.8	$3.7	$3.2	-13.1%	-15.9%
Op Inc.	$0.88	$2.16	$3.19	47.7%	262.1%

CEO Gadi Tamari highlighted six key points affecting the company's future prospects, all worth pondering. 1) Click to Meet (the FVC asset acquisition) is a key component to RVSN's federal program and the company intends to move into the commercial sector soon; 2) Click to Meet is the key component to the Microsoft relationship and the integration with LCS and the drive to the commercial sector; 3) the Cisco relationship remains strong and growing; 4) penetration into the 3G service providers continues, with these carriers still being in trial phases. The huge investments these carriers have made in technology must soon be accompanied by investments in new services, like video calling; 5) Partnerships with Aethra and Sony are the key to these companies being able to crack the Group videoconferencing market in North America since they need to offer their customers a more complete solution than just end points. RVSN seems to be the partner of choice for both of them, since we believe the Aethra-Codian partnership has ended in divorce. 6) RVSN's Technology Business Unit has a commanding market share of software stacks and development kits and that sector of the company will grow largely as the market grows, not by gaining share.

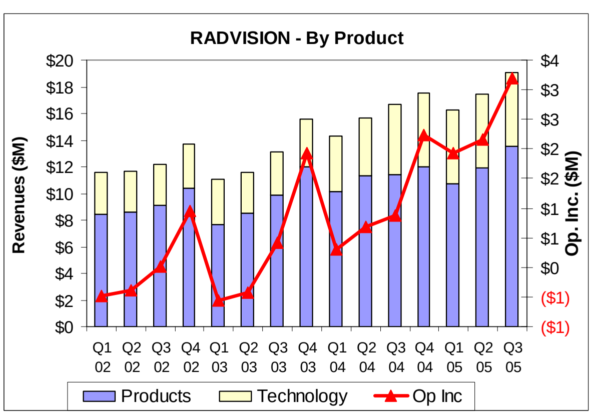
During the earnings call it was revealed that the company did around $1.3 million in sales into the 3G space and that this number has been fluctuating between $1 & $2 million for several quarters.

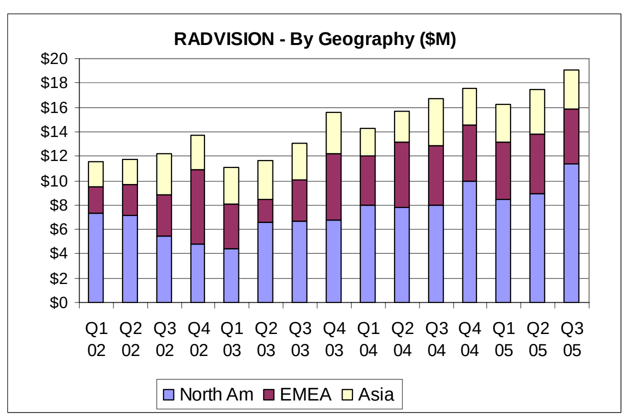
Well, as we all know, in front of every silver lining is a dark cloud. When you look at the TBU sales with a little bit of number crunching, things look a bit different. My figures below were NOT discussed on the conference call, and yours truly was blocked from asking any questions since I am not a RVSN investor. Go figure !

My figures show what I believe were the "core" RVSN product sales for the periods indicated. RVSN acquired the assets of Click to Meet (FVC) in mid Q2-05. CTM sales were about $1 million in Q2 and were reported to be $2.6 million in Q3. Suddenly the 19% growth turns into a 4.4% decline. And this decline seems reasonable given the growing strength of Codian and TANDBERG in this space, some of which must be coming at the expense of RVSN.

RVSN	Q3-04	Q2-05	Q3-05	Sequential Growth	Annual Growth
NBU revenues as reported	$11.4	$11.9	$13.5	13.8%	19.0%
NBU revenues without CTM	$11.4	$10.9	$10.9	0.0%	-4.4%

While RVSN referred to a resurgence in the group videoconferencing market and hence a renewed interest in the company's ViaIP product line, it seems unlikely that RVSN is going to benefit from a strong relationship with Sony and/or Aethra; at least not in North America where these two endpoint vendors remain extremely weak. On the other hand, RVSN has two nice aces up its sleeve. One is the OEM relationship with Cisco, a company that is making much more noise in video and unified collaboration these days. The other is the Microsoft relationship and the ability for RVSN to support multipoint calls with Communicator. Of course, others are staking claims in this wild west territory as well, including Arel, Polycom, and TANDBERG. RVSN has the added challenge here of building a business based on Click to Meet while insisting to Microsoft that the company doesn't want to be in the endpoint business. Go figure !





The Big Three Compared

		Q3-05	Sequential Growth	Annual Growth
PLCM	video units	13,841	-5.5%	2.7%
TAA	video units	8,371	1.6%	18.9%
PLCM	video revenues	$75.6	1.1%	1.6%
TAA	video revenues	$67.0	1.7%	13.7%
PLCM	infrastructure revenues	$31.5	-4.3%	-16.4%
TAA	infrastructure revenues	$12.9	15.2%	53.3%
RVSN	infrastructure revenues	$13.5	13.8%	19.0%
PLCM	total revenues	$144.4	1.2%	2.6%
RVSN	total revenues	$19.1	9.3%	14.3%
TAA	total revenues	$91.2	3.1%	19.2%

The above table includes figures as reported by the vendors. PLCM video revenues include services. RVSN infrastructure revenues include Click to Meet.

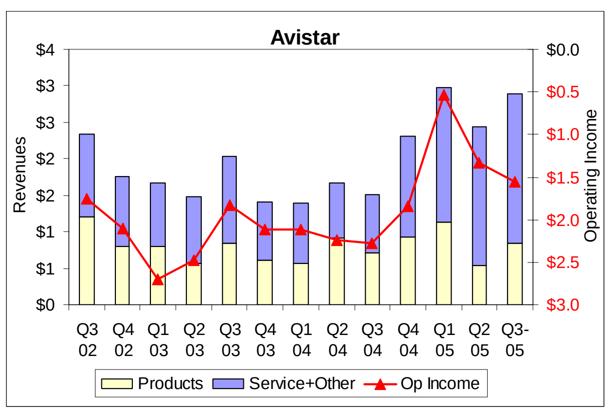
While we are awaiting feedback from many other vendors in the video space before we can comment on market shares, and in our SpotCheck analysis we will be backing out Polycom's service revenues to compare apples-to-apples, or videoconferencing systems-to-videoconferencing systems in this case, it indeed looks like a neck-and-neck horse race here, with momentum shifting to TANDBERG.

We maintain our position that the most relevant numbers are annual growth numbers; on this basis TAA is the growth leader in video units, video revenues, infrastructure revenues, and total revenues. PLCM is still the largest vendor of infrastructure products and the largest vendor in the conferencing and collaboration space.

Avistar – Q3/2005

Avistar reported revenues of $2.9 million for the quarter, up from $1.5 a year earlier.

AVSR	Q3 04	Q2 05	Q3 05	Sequential Growth	Annual Growth
Products	$0.71	$0.54	$0.84	55.6%	18.3%
Services+	$0.80	$1.90	$2.05	7.9%	156.3%
Total Rev	$1.51	$2.44	$2.89	18.4%	91.4%
Op Inc.	($2.28)	($1.33)	($1.56)	na	na



On2 Technologies announced Q3-2005 revenue of $507,000, a 33% decrease from Q3-2004 and a 47% increase from Q2-2005.

WR Thought Leadership Seminar Series – November

Integrated Collaboration – Enhancing business communication through the integration of Presence, IM and Telephony

Click Here to Register

Speaker: Gavin Hill, Technology Manager: IP Convergence, Dimension Data

Date: November 9, 2005 **Time:** 12:00 noon Eastern (New York)

As a global technology integrator with operations in 30 countries, Dimension Data has real-world experience integrating telephony systems with presence and IM platforms. The company has implemented numerous Live Communication Server deployments and has installed over 300,000 Cisco IP phones (~6% of Cisco's worldwide total). In this presentation Gavin Hill will examine the impact, challenges, and benefits to organizations implementing integrated IM and enterprise Telephony systems. In this Thought Leadership Seminar, you will learn

1. What customers are looking for when installing IP phones with an LCS solution.
2. If there is more interest in premise-based presence and IM than conferencing (web, audio and video), and if so, why.
3. What are some "gotchas" companies should look out for when installing a telephony-based unified communications solution (IP PBX and LCS).

Gavin Hill has 15 years of IT industry experience and a background in programming and network design and management. He joined Dimension Data's South African business operations 6 years ago with a focus on security, after which he shifted his focus to convergence and its impact on business communications.

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Microsoft Office Live Meeting

Conferencing & Collaboration Event Calendar

WHEN & WHERE	WHAT & WHO
November 2, 2005, 11:00 EST, online	WR Examine! Megatrends Impacting our Visual Future, featuring TANDBERG CEO Andy Miller
November 2, 2005, 1:00 EST, online	Effective Enterprise Webcasting featuring Ira Weinstein, sponsored by Netbriefings
November 3, 2005, 1:00 EST, online	Unearthing the True Value of Web Seminars featuring Andy Nilssen, sponsored by WebEx
November 9, 2005, 12:00 EST, online	WR Thought Leadership: Integrated Collaboration – Enhancing business communication through the integration of Presence, IM and Telephony
November 14, 2005, Ritz-Carlton Pentagon City, Washington DC.	Mitigating Security Risks in Videoconferencing, by Ira Weinstein, sponsored by TANDBERG and Criticom
2006-April 19-20-21, Berlin, Germany	WR European Forum Conferencing, Collaboration, and Next Generation Meeting Tools
2006-July 19-20-21, Boston, MA	The Wainhouse Research Summit - 2006