The Wainhouse Research Bulletin

When it rains, it pours. Financial stories at least.

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Financial News in Brief

AT&T and Interwise

AT&T has agreed to acquire privately held Israel-based Interwise, a global provider of converged voice and web conferencing solutions, both products and services (that also do video). AT&T will pay approximately $121 million in cash for the 150-person company. The transaction aligns Interwise's IP-based desktop conferencing and collaboration solution with AT&T's enterprise networking, communications and collaboration services and global MPLS-based IP network.. Following the acquisition, Interwise will operate as a business unit within AT&T Global Business Services. AT&T expects to retain Interwise's management team and its domestic and international operations, including its R&D center in Israel.

Here's What We Think:

Interwise has long had an interesting, and perhaps market-leading, integration of VoIP- and TDM-based audio combined with video-enabled web conferencing and collaboration. The company has also offered both on-premise and fully hosted conferencing as well as a unique, hybrid solution that allows enterprises to receive the cost and security benefits of on-site software with the rapid startup, geographic reach and capacity protection of a hosted service. Although Interwise may lose some business from current partners who will see AT&T as competition, this negative side effect of the acquisition is likely to be minimal. Overall, this is a big win for AT&T and should be a big win for Interwise investors and employees as well.

Also of interest, Interwise is being integrated into the AT&T Global Business Services organization, NOT into AT&T conferencing. This is clearly viewed as an IT play.

It's easy to miss the forest for the trees, but what we see happening here is consolidation. The big guys (Microsoft, IBM, Cisco) are moving towards having complete solutions that cross audio-video-web products and services. The consolidation pressure will apply in two directions. 1) Companies that are direct competitors will feel the heat – whether they are in the product space or the services space. 2) Companies elsewhere in the supply chain will feel the pressure to bulk up. As the manufacturers get bigger, the resellers will need to merge to gain size, footprint, and a wide range of technical skills as well as negotiating power.

RADVISION

In a hastily called conference call, Radvision announced that it expects to report revenues for Q3 of approximately $20.5M compared with the company's earlier forecast of $25M and compared with the Q3-06 results of $23.6M. According to the company, a major contributor to the 15% drop in sales, year over year, was increased customer demand for high definition continuous presence. We're not buying that story, not one bit. We wish it were true, because

then the company's problems would be quick and easy to solve. Instead, we believe that the company has more fundamental sales and marketing issues. Platinum Pro subscribers: see our research note analysis covering the Radvision announcement .

Deutsche Telekom

According to the Wall Street Journal, DT has concluded a deal to buy France Telecom SA's Orange Netherlands mobile and Internet operations for $1.9B. Orange's Dutch operations will be combined with DT's T-Mobile business.

Avaya

Shareholders have approved the sale of the company to two private equity firms, Silver Lake Partners and TPG Capital. Deal should close this month.

Alcatel-Lucent

After issuing its third profit warning in nine months, A-L is looking at ways to accelerate its integration plans. Once again, mergers don't always go as planned. Time's a wasting, as they say.

Huawei-3Com

In the category of what goes around comes around, Huawei played a crucial role in the $2.2 billion takeover of 3Com Corp., a pioneer of U.S. computer-networking technology. Under the terms of the agreement, private-equity firm Bain Capital will take a stake of more than 80% in Massachusetts-based 3Com. Huawei Technologies (China) is purchasing the rest. The deal was struck at $5.30 a share, a 44% premium to 3Com's closing price.   However the price represents only a modest premium on the valuation earlier this year of H3C, the former joint venture between Huawei and 3Com for which 3Com paid $US882 million to buy out Huawei's 49 percent share.

eBay & Skype

As one famous US senator once said, a billion here and a billion there and pretty soon it adds up to real money. Well, eBay announced that in the quarter just ended, it will take $1.4 billion in write-offs and charges related to the Skype acquisition. About $530 million will go to former Skype shareholders to help them forget about performance-based payouts that were part of the original deal. And eBay will write off about $900 million in Skype-related goodwill to reflect more accurately the acquisition's true value (as opposed to the $2.6B plus $1.7B in performance payouts that were part of the original deal.). Skype co-founder Niklas Zennstrom was eased out of the CEO's office and given the non-executive chairman's seat at the Skype board table.

Polycom

One day after Radvision's forecast update, Polycom announced that it expects to report net revenues for Q3 in the range of $235 to $239M.   Although slightly lower than analyst expectations of $245M, this compares favorably to the company's Q3 2006 net revenues of $173.2M. During this morning's presentation at Jeffries, CFO Mike Kourey explained that the minor miss in this quarter's sales estimate was related to less than expected sales growth in the US marketplace.

News in Brief

- ➢ LifeSize released v3.0 of its software for LifeSize Room and LifeSize Team high definition videoconferencing systems. LifeSize 3.0 enhancements include 1) increased embedded MCU functionality with support for 6-way voice activated switching and 4-way continuous presence plus data streaming; 2) camera quality enhancements to auto focus, auto exposure, color correction and low light performance, 3) improved user simplicity through new user interface design, enhanced call manager functionality and expanded call directory capabilities. In addition, the company introduced an SDI adapter that allows LifeSize Room systems to connect directly with third party HD cameras such as the Sony EVI-HD1 or other cameras intended for auditoriums and lecture halls. WR intends to run v3.0 through its paces and report shortly.

- ➢ Novell announced the upcoming availability of Novell Teaming and Novell Teaming+Conferencing, two new team workspace and real-time collaboration additions to Novell's workgroup product line. These solutions, which are based in part on an OEM relationship with SiteScape, support a new model for technical and business innovation Novell calls "open collaboration," an open source development process that allows customers and partners to participate in product innovation. More? See www.icecore.com .

- ➢ HaiVision Systems announced a partnership with One Touch Systems, a provider of solutions for live, enterprise-wide communications and learning. One Touch now integrates HaiVision's TASMAN high performance H.264 video encoder into their satellite based communication and learning solutions.

Jon Neville Joins Wainhouse Research

Wainhouse Research is pleased to welcome Jon Neville as our second European-based Practice Consultant. Jon will focus on IP Telephony and Unified Communications, and will work closely with Brent Kelly providing end user deployment guidance and vendor consulting in our Unified Communications Practice area.

Jon has a rich background with more than 25 years experience in the IT industry. He spent the last 10 years working for Mars Inc, the major multi-national food manufacturer, specializing in telecommunications. Jon was responsible for specifying and deploying their global MPLS network. He also managed Mars' upgrade to IP telephony, with particular involvement in the telephony RFP, vendor selection, and deployment processes. He has considerable commercial experience, having negotiated contracts with various large telecommunications and other IT vendors.

At WR Jon will be consulting in the area of IP Telephony and Unified Communications, with an emphasis on assisting enterprises in developing their business cases for IP telephony and unified communications deployment. Jon has developed an extensive modeling system and a unique vendor selection and management process. He brings his practical guidance and real-world experience to help organizations achieve successful, cost effective implementations.

Jon is a recognized expert in the telecommunications field, and is currently a director of the EVUA (Enterprise VPN Users Association) where he leads their IP Convergence group. He is also a regular speaker at telecommunication industry events in the European, US and Asia Pacific regions. He has created a research note titled, "A 10 Point Guide for Implementing IP Telephony in the Enterprise". Jon can be contacted at jneville@wainhouse.com.

CSP Summit Set to Launch: 29 October in Boston

This year's CSP Summit features a line up of speakers who will address the need for CSPs to innovate in services and service delivery in achieving further growth.

To that end, Alfonso DiGabriele of Global Crossing will be joining us to discuss Global Crossing's transition to IP in the highly sensitive and quality conscious events business. In his talk Al will review the carrier's approach to replacing its heavily-used legacy TDM equipment with an IP-based platform that enabled Global Crossing to aggressively leverage IP's numerous advantages, including its unique ability to provide multi-site service deployment in its IP core network. Al will also review how a service that was first envisioned as a form/fit/function replacement evolved in terms of its usability, robustness, and scale.

WR encourages CSPs and their partners to join us for this session and 13 other speakers who are sure to expand your thinking and spark new ideas to grow your business.

This year's session has been scheduled just one day prior to the Fall VON Boston conference so conference attendees can conveniently attend both conferences. For full details, agenda, and registration see www.wainhouse.com/cspsummit.

Wainhouse Research CSP Summit 29-October-2007 - Boston, MA
➢ Keynote: Driving Value through Innovation - The Face of the New CSP
➢ Benefits of SIP Conference Platforms for CSPs
➢ Deploying Custom & Out-of-the-Box Voice Applications at an Extremely Competitive Prices
➢ Achieving Differentiation & Client Loyalty through New CSP Services
➢ Partnership for Innovation
➢ What's up with Collaboration & Conferencing at Google, Yahoo, AOL & Skype?
➢ Dancing with Elephants - How CSPs Can Work with Avaya, Cisco, Mitel, Nortel, IBM, and Microsoft
➢ Rapid Service Creation for Converged TDM/IP or SIP-enabled VoIP networks
➢ Innovation through Unified Communications & Collaboration
➢ Making the Workgroup Collaborative
➢ Service Provider Case Study: Transitioning Events service from TDM to IP
➢ Alternatives to WebEx & MS Live Meeting - Can You Go Your Own Way?
➢ Is now the time to sell? - Determining the Best Way & Time to Sell Your CSP
➢ Networking Cocktail Reception

Point Nine User Forum, Wednesday, 7th November, Philadelphia, PA

Unified Communications (UC) – So much more than desktop video!

*Understanding the options and formulating a UC strategy*

The final US meeting of the year for the Point Nine User Forum will be hosted by Reed Smith, LLP at their offices in Philadelphia on 7th November (free gala dinner on Nov 6.) We will be discussing all aspects of UC - the key players, the strategic alliances, their solutions and the key factors to take into account when considering a successful UC strategy. In addition to the UC managers of major multi-national organizations sharing their knowledge, Wainhouse Research's own leading UC specialist, Dr Brent Kelly, will be providing his thoughts and views on what is happening in the market.

The Point Nine User Forum is open to all conferencing and UC managers. If you have plans to develop or implement a UC strategy in 2008 or would simply like to gain a greater understanding of how UC can add a competitive edge to your organization, then you should attend this highly educational and interactive session. However, register soon as the limited places available for this meeting are already going – *fast!!* For further details including the agenda and registration information, please visit www.wainhouse.com/point9 .

This meeting is closed to the vendor community other than our P9 sponsors. We have a limited number of sponsorship places available. If you are interested in sponsorship, please contact Sara Fargo at sfargo@wainhouse.com for further information.

New WR White Paper: Leveraging Technology in the Pre-Trial Process

Criminal justice systems are tasked with ensuring the timely processing of criminal complaints while simultaneously protecting the rights of the accused. These responsibilities must be fulfilled while facing budgetary constraints, resource limitations, complex processes involving numerous agencies, and massive volumes of paperwork. Fortunately, there are technology solutions available that can help jurisdictions successfully meet these challenges. This white paper, available for FREE from www.wrplatinum.com, provides insight into the use of rich media content (e.g., 911 audio, crime scene video, incident / arrest reports, electronic forms) and workflow management to streamline their pre-trial process.
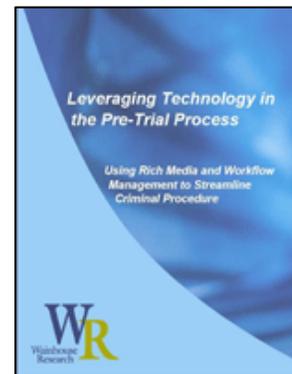
One on One with AVI Managing Chairman Martin Schaffel

Rumors have been circulating about a merger/acquisition/shotgun marriage between Audio Visual Innovations (AVI) and SPLIS for a long time. I decided to call the bluff and rang up Martin Schaffel, the owner and Managing Chairman of AVI to get the straight story.

WRB. Very quickly, for those of us who don't know AVI, what does the company do?

MS: AVI, as the name suggests, is the expert firm in audiovisual technologies – we provide custom systems integration solutions, equipment sales and services nationwide for enterprise communications, collaboration, and presentation needs. We are headquartered in Tampa, and have offices nationwide. We are privately held and have been in business 28 years. We believe we are the largest AV systems integrator in the country.

WRB: Ok, so what's the story with SPL?

MS: We have been in discussion with SPL for over two years. Putting the two companies together would represent the combination of the #1 and #2 players in the industry, and would be a very strong company in terms of financial strength, footprint, technology skills, and leverage with suppliers. We would be the overwhelming leader in this industry.

WRB: Two years? What's taking so long?

MS: The slow pace is definitely my doing. I wanted time to think about this, to make sure that the welfare of the AVI employees is a top concern and handled properly. I want to be comfortable with the plan moving forward, and to make sure that the culture of the combined organizations will be comfortable and will work well. I needed time to understand the SPL organization.

WRB: And so???

MS: Let's just say we are very close to completion. There are still a few financial details to work out. I don't want to say more than that at this time.

WRB: What are the major challenges facing AVI and the industry at this time?

MS: The challenges facing AVI are the same as those facing the industry overall. The technology today is very complex, and integration is even more complex. You need to have good people who are motivated to stay current with products, technologies, and services. You need to provide a good business environment for these people to work in. Beyond that, the challenges facing our type of business include maintaining a sense of urgency – so that every job goes to 100% completion. Doing 90% or 95% of a project is the death knell for a systems

integrator. You need to stay organized and focused. Also, in a high tech business like this you need to have good asset controls. Inventory is a killer.

WRB: How important is videoconferencing to your business?

MS: Very important, and getting even more important as we move forward. We are seeing hockey-stick growth trends right now.

WRB: What advice would you offer to prospective customers?

MS: Very simple. Look for a vendor that is financially stable and has a broad set of technology skills to give the best overall end result. And look for a vendor that can support you in the locations you need – whether that be in a single city, or nationwide, or around the globe.

Conferencing & Collaboration **Event Calendar**	
WHEN & WHERE	**WHAT & WHO**
October 14-17, Anaheim, CA	2007 PUG Annual Conference
October 29, Boston, MA USA	Wainhouse Research CSP Summit
October 29, Boston, MA USA	IMTC Forum at VON
November 6-7, Philadelphia, PA	Point Nine User Forum hosted by Reed Smith
5 December, Basel, Switzerland	Point Nine User Forum hosted by Novartis
8-10 April, 2008, Berlin, Germany	Wainhouse Research Collaboration Summit
July 16-18, 2008, Boston, MA	Wainhouse Research Collaboration Summit

Wainhouse Research
COLLABORATION
S U M M I T
BERLIN 2008

CALL FOR PAPERS
Berlin, Germany
8-9-10 April 2008

We are looking for presenters who have interesting perspectives on best practices and solutions in the areas of collaboration, conferencing, and rich media communications. Example topics include:

➢ Audio-video-web conferencing and collaboration, including telepresence
➢ Unified Communications & IP telephony
➢ Emerging & new technologies or services
➢ Interesting and unique applications
➢ Enterprise social networks for collaboration
➢ Each of these areas may be presented in the following format:
➢ Case study – problem>analysis>solution>result
➢ Technology overview>market drivers>review of solution(s)>benefit

Check out the call for papers (pdf) and the official speaker submission form.