WEDBUSH

Equity Research

LOS ANGELES | NEW YORK | SAN FRANCISCO | BOSTON | SEATTLE

Communications Equipment

Rohit Chopra
(212) 668-9871
rohit.chopra@wedbush.com

Sanjit Singh
(212) 938-9922
sanjit.singh@wedbush.com

December 14, 2009

Communications Equipment (PLCM, RVSN)
Videoconferencing Technology from Vidyo Inc. Could Emerge as a Disruptive Force Over the Next 12-24 Months

- **Vidyo is positioning itself as a disruptive force to traditional players in the enterprise videoconferencing market.** We think Vidyo's use of the H.264 SVC protocol to introduce a cheaper, higher quality, videoconferencing solution aimed at the desktop has the potential to create significant disruption in the traditional conferencing market over the next 12-24 months. Radvision, which is facing challenges as it attempts to replace lost Cisco revenue has begun to adopt H.264 SVC, but faces the greatest near-term challenge as the industry consolidates. The company has fewer players to sell its technology to and we believe it has to pivot to potentially acquire or leverage the Vidyo technology to remain viable. Polycom is working to shore up it current business with the Cisco competitive threat looming. Polycom appears primarily focused on traditional conferencing technology. However, instead of simply offering an identical solution to Cisco's, we think the company should develop a longer-term focus on cutting-edge technology which would help them gain a missing competitive edge. Vidyo offers a compelling solution, which in the hands of an acquiring or partnering company could provide a significant advantage.

- **Vidyo's conferencing platform is beginning to resonate with customers as partner network expands.** Since the company began selling its product in mid-2008, the company has installed over 200 enterprise systems and has seen sustained revenue growth of over 35% in recent quarters despite the difficult spending environment. In addition, the company is gaining traction with large customers including Google, Hitachi, ShoreTel, Teliris as well as several OEM customers while offering integration capabilities with Microsoft's Office Communication Server. In addition, we think the company is working with several service providers to offer a managed services solution (e.g. video as a service). Note that at Polycom's most recent analyst day, Polycom also articulated a strategy whereby it would also start to target carriers. While we think the managed services opportunity could be large, we think it will be competitive and will take time to develop. The challenge for Polycom will be to develop an offering which approaches the economics of the solution offered by Vidyo.

- **We believe Vidyo's approach to videoconferencing could significantly alter the economics of the industry**. Relative to traditional videoconferencing players, Vidyo's solution offers lower up front cost for its HD solution than the competition with price points of $1000 per port per year vs. $5000-8000 per port in upfront costs and an additional 5-10% per year for service with legacy vendors. Furthermore, we think the Vidyo has lower total cost of ownership as the technology does not require dedicated networks and bandwidth, thus allowing customers to build videoconferencing capabilities on top of their existing infrastructure. Eliminating the MCU results in further benefits, including lower latency and a higher usability threshold should packet loss occur. In our view, a solution which offers a cheaper conferencing experience, with higher quality, represents a threat to traditional vendors and could alter the economics of the industry.

- **We think Vidyo's disruptive technology could represent both a threat and an opportunity to existing players such as Polycom and Radvision.** Management indicated that contrary to some public criticism, its videoconferencing solutions are interoperable with those of larger vendors by means of its Vidyo Gateway product. In addition, they noted that a large percentage of its installed base possessed a competing legacy solution and its customers would not have purchased the Vidyo solution if it was not interoperable with prior investments. The capacity of the system is higher than a traditional solution, allowing 50 people in a single conference. Given attractive economics and the high value that customers derive by their ability to deploy an enterprise-wide videoconferencing capability without the need of dedicated networks, we think that the Vidyo solution will emerge as a significant force in the industry over the next 12-24 months. Thus, we think the company represents a near to intermediate term threat to traditional conferencing vendors. In fact, we believe that Google could also emerge as an acquirer of the technology given its burgeoning desktop and mobile strategy. A potential deal with Google would pose a significant competitive threat to traditional videoconferencing vendors, in our view. The opportunity, in our view, is for a traditional vendor to acquire Vidyo. We think that should the technology be acquired by Radvision, Polycom, Logitech (LifeSize), or Cisco (Tandberg), the acquiring company will obtain a significant competitive advantage over their rivals. Note that Vidyo has indicated that its goal is to become a public company in the next 24 months.

PRICE TARGETS and RISKS

- **We maintain our NEUTRAL rating and our $25 target on shares of Polycom.** Our target represents a ~16x multiple on our CY10 cash-adjusted EPS estimate of $1.26 plus $4.73 in cash.
- **We maintain our UNDERPERFORM and our $6 target on shares of Radvision based on our DCF analysis.**
- Risks to attainment of our Polycom share price target include increased competition, reduced IT spending by enterprise customers, slower than expected adoption of video communications, and channel execution.
- Risks to attainment of our Radvision share price target include faster than expected rollout of 3G, faster than expected adoption of video communications, failure of Cisco acquisition of Tandberg to win shareholder approval, decreased revenue concentration, and stronger than expected enterprise spending.

Rohit Chopra (212) 668-9871
Sanjit Singh (212) 938-9922

Covered public companies mentioned in this report (intraday 12/14/09)

COMPANY	TICKER	RATING	PRICE	PRICE TARGET
Radvision	RVSN	UNDERPERFORM	$6.09	$6.00
Cisco Systems	CSCO	OUTPERFORM	$24.13	$28.00
Polycom	PLCM	NEUTRAL	$22.86	$25.00

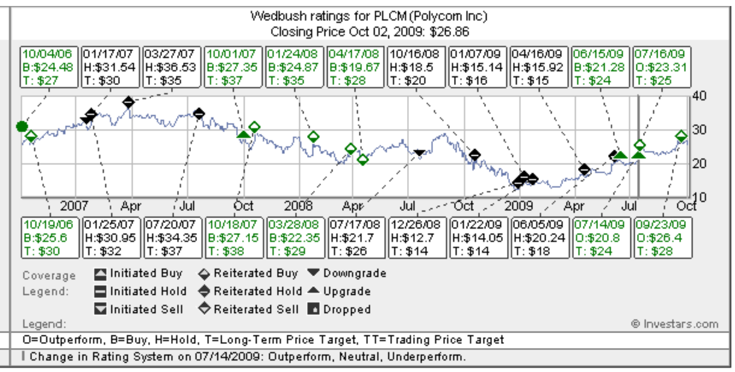
WEDBUSH SECURITIES

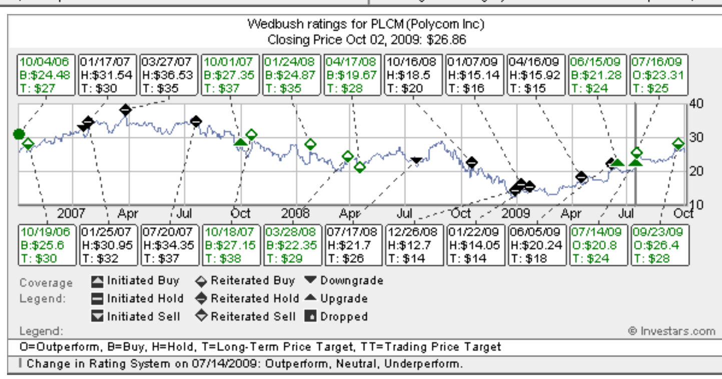
Wedbush does and seeks to do business with companies covered in its research reports. Thus, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

ANALYST CERTIFICATION

I, Rohit Chopra, certify that the views expressed in this report accurately reflect my personal opinion and that I have not and will not, directly or indirectly, receive compensation or other payments in connection with my specific recommendations or views contained in this report.

IMPORTANT DISCLOSURES





INVESTMENT RATINGS

OUTPERFORM – Expect the total return of the stock to outperform relative to the median total return of the analyst's (or the analyst's team) coverage universe over the next 6-12 months.

NEUTRAL – Expect the total return of the stock to perform in-line with the median total return of the analyst's (or the analyst's team) coverage universe over the next 6-12 months.

UNDERPERFORM – Expect the total return of the stock to underperform relative to the median total return of the analyst's (or the analyst's team) coverage universe over the next 6-12 months.

The Investment Ratings are based on the expected performance of a stock (based on anticipated total return to price target) relative to the other stocks in the analyst's coverage universe (or the analyst's team coverage).*

DISTRIBUTION OF RATINGS (as of September 30, 2009)

OUTPERFORM – 42% (5% of this rating category were investment banking clients within the last 12 months).

NEUTRAL – 42% (1% of this rating category were investment banking clients within the last 12 months).

UNDERPERFORM – 16% (4% of this rating category were investment banking clients within the last 12 months).

The Distribution of Ratings is required by FINRA rules; however, WS' stock ratings of Outperform, Neutral, and Underperform most closely conform to Buy, Hold, and Sell, respectively. Please note, however, the definitions are not the same as WS' stock ratings are on a relative basis.

The analysts responsible for preparing research reports do not receive compensation based on specific investment banking activity. The analysts receive compensation that is based upon various factors including WS' total revenues, a portion of which are generated by WS' investment banking activities.

WS makes a market in the securities mentioned herein.

* WS changed its rating system from (Strong Buy/Buy/Hold/Sell) to (Outperform/ Neutral/Underperform) on July 14, 2009.

Please access the attached hyperlink for WS' Coverage Universe: http://www.wedbush.com/inside/CapitalMarkets/CoverageList.asp

Additional information is available upon request by contacting Ellen Kang in the Research Department at (213) 688-4529, or by email to ellen.kang@wedbush.com, or the Business Conduct Department at (213) 688-8090.

OTHER DISCLOSURES

RESEARCH DEPT. * (213) 688-4505 * www.wedbush.com

INSTITUTIONAL TRADING Los Angeles (213) 688-4470 / (800) 421-0178 * INSTITUTIONAL SALES Los Angeles (800) 444-8076

CORPORATE HEADQUARTERS (213) 688-8000

WEDBUSH

EQUITY RESEARCH DEPARTMENT
(213) 688-4529

DIRECTOR OF RESEARCH
Mark D. Benson (213) 688-4435

CONSUMER PRODUCTS AND SERVICES

Consumer Products
Rommel T. Dionisio ………………………… (213) 688-4418
Kurt M. Frederick, CPA …………………… (213) 688-4459

Education
Ariel Sokol ………………………………… (212) 668-9874
David Kwon………………………………… (212) 938-9928

Entertainment Retail
Michael Pachter …………………………… (213) 688-4474
Chris White………………………………… (213) 688-4423
Edward Woo, CFA ………………………… (213) 688-4382

Gaming, Lodging & Leisure
Rachael Rothman, CFA…………………… (212) 938-9940
Amanda Bryant, CFA……………………… (212) 938-9942
Yinan Zhao………………………………… (212) 938-9941

Restaurants
Rachael Rothman, CFA…………………… (212) 938-9940
Michael Sang, CPA………………………… (212) 938-9943

Specialty Retail: Hardlines
Joan L. Storms, CFA ……………………… (213) 688-4537
John Garrett……………………………… (213) 688-4523

Camilo Lyon ……………………………… (212) 938-9924

Specialty Retail: Softlines
Betty Chen ………………………………… (415) 273-7328
Connie Wong……………………………… (415) 273-7315

Specialty Retail: Sporting Goods
Camilo Lyon ……………………………… (212) 938-9924

ENTERTAINMENT AND MEDIA

Advertising & Broadcasting
James Dix, CFA…………………………… (213) 688-4315

Entertainment: Software
Michael Pachter …………………………… (213) 688-4474
Edward Woo, CFA ………………………… (213) 688-4382
Chris White………………………………… (213) 688-4423

Entertainment: Toys
Chris White………………………………… (213) 688-4423
Edward Woo, CFA ………………………… (213) 688-4382

Movies & Entertainment
Chris White………………………………… (213) 688-4423
Michael Pachter…………………………… (213) 688-4474

Internet Advertising/Media
Edward Woo, CFA………………………… (213) 688-4382

INDUSTRIAL GROWTH AND CLEAN TECHNOLOGY

Industrial Growth
Al Kaschalk………………………………… (213) 688-4539
Kevin Lee…………………………………… (213) 688-4303

Clean Technology
Craig Irwin………………………………… (212) 938-9926

Solar Technology
Christine Hersey…………………………(213) 688-4311

TECHNOLOGY

Communications Equipment
Rohit Chopra ……………………………… (212) 668-9871
Sanjit Singh ……………………………… (212) 938-9922

Communications Technology
Matthew Robison…………………………… (415) 263-6659
Leo Choi …………………………………… (415) 263-6669

Datacenter Technologies
Kaushik Roy………………………………… (415) 274-6873
Hemant Hebbar……………………………… (415) 274-6874

Software: Enterprise / Application
Michael B. Nemeroff………………………… (212) 668-9876
David Giesecke……………………………… (212) 938-9925

Software: Infrastructure
J. Derrick Wood, CFA……………………… (415) 274-6822
David Kaczorowski…………………………(415) 274-6883

Internet: Infrastructure
Kerry Rice, CPA …………………………… (213) 688-4538

Semiconductors
Patrick Wang………………………………… (212) 938-9938
Michael Lucarelli…………………………… (212) 938-9927

Betsy Van Hees……………………………… (415) 274-6869
David Epstein ……………………………… (213) 688-6624

Telecommunications Software
Scott P. Sutherland, CFA ………………… (213) 688-4522
Suhail Chandy ……………………………… (213) 688-4380

Transaction Processors
Gil B. Luria………………………………… (213) 688-4501
Nick Setyan………………………………… (213) 688-4519

Wireless Equipment
Scott P. Sutherland, CFA ………………… (213) 688-4522
Suhail Chandy ……………………………… (213) 688-4380

LIFE SCIENCES

Biotechnology / Biopharmaceuticals
Gregory R. Wade, Ph.D…………………… (415) 274-6863
Jeremiah Shepard, Ph.D…………………… (415) 274-6862

Kimberly Lee, D.O………………………… (415) 274-6842

Y. Katherine Xu, Ph.D……………………… (212) 938-9955

Cardiovascular, Devices & Regenerative
Duane Nash, MD JD MBA…………………… (415) 263-6650
Akiva Felt ………………………………… (415) 263-6648

Emerging Pharmaceuticals
Liana Moussatos, Ph.D…………………… (415) 263-6626
Richard Lau ……………………………… (415) 274-6851

Specialty Pharmaceuticals
Patricia Bank………………………………(415) 263-6646

Medical Technology
Phillip Nalbone……………………………(415) 274-6884

EQUITY SALES

Los Angeles	(213) 688-4470 / (800) 444-8076
San Francisco	(415) 274-6800
New York	(212) 668-9868
Boston	(617) 832-3700

EQUITY TRADING

Los Angeles	(213) 688-4470 / (800) 421-0178
San Francisco	(415) 274-6811
New York	(212) 344-2382
Boston	(617) 832-3700

CORPORATE HEADQUARTERS

1000 Wilshire Blvd., Los Angeles, CA 90017-2465
Tel: (213) 688-8000 www.wedbush.com