

December 12, 2008

Changes	From (Previous)	To (Current)
Rating	--	Hold
FY08E EPS (Net)	\$1.44	\$1.42
FY09E EPS (Net)	\$1.54	\$1.44

Stock Data			
Price (12/11/08):			\$15.92
52-Week Range:			\$29 – \$15
Market Cap.(\$mm):			\$1,372.3
Shr.O/S-Diluted (mm):			86.2
Avg Daily Vol (3 Mo):			1,737,419
LT Debt/Total Cap.:			0.0%
Net Cash/Share:			\$3.33
Dividend (\$):			\$0.00
Yield (%):			0.0%
Book Value/Share:			\$10.92
S&P Index:			870.74

EPS (Net)	2007A	2008E	2009E
1Q	\$0.30A	\$0.36A	\$0.32
2Q	0.30A	0.35A	0.34
3Q	0.35A	0.37A	0.37
4Q	0.42A	0.35	0.41
FY Dec	\$1.37A	\$1.42	\$1.44
P/E	11.6x	11.2x	11.1x

Revenue (Net)	2007A	2008E	2009E
Revenue (Net)	\$929.9M	\$1.07B	\$1.07B

Competitive and reseller checks show increasing headwind; reducing estimates

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Company Update

LifeSize, a privately held video conferencing company recently introduced a new high-definition (HD) product named Room-200. The product lists at \$17,000 and supports 720p at 60 frames/sec, 1080p at 30 frames/sec and is capable of 5+1 multipoint conferencing. The unit is able to render quick movement without any "blurriness" on the screen due to the fact that it supports 60 frames/sec. A key takeaway is that the Room-200 can support 1080p at 30 frames/sec with a minimum of 1.7 Mbps of bandwidth while products from competitors require bandwidth of 3 Mbps or more. LifeSize also released version 4.0 of its software, which supports multiple streams of different resolutions.

LifeSize continues to gain significant traction in the market due to its attractive price/performance ratio. Our checks show that in a recent RFP in Southern California, LifeSize was less than half the cost of a comparable system from Tandberg. LifeSize has many customer wins including Activision, Disney and Lucas Films and is making inroads at companies that have deployed systems from Polycom or Tandberg.

While the company claims to have a high win-rate, our checks show that Polycom is aggressively discounting its entry-level HDX7000 system to better compete with LifeSize. We believe that discounting has helped accelerate sales of the HDX7000 in the December-quarter. However, we continue to hear that large deals are elongated and require multiple levels of approvals to close. Our checks with resellers show that the month of November was quite slow and worse in terms of sales versus the month of October. Tandberg seems to be slowly gaining share because of better sales execution. Our checks on the voice side have been equally negative if not worse. As such we believe that our current estimates of flat sequentially might be a tad bit aggressive. We are reducing our December quarter estimates to revenues of \$262 million and EPS of \$0.35 versus \$276 million/\$0.35 previously. For 2009, we move to \$1.069 billion and \$1.44 down from \$1.13 billion/\$1.54 previously.

We continue to rate Polycom a Hold.

Company Description

Polycom develops, manufactures and markets high-quality, easy-to-use communications equipment that enables enterprise users to access broadband network services and leverage increased bandwidth to more conveniently conduct voice, video and data communications. Polycom's products include network access products and enterprise voice and video communications equipment. Within this market, Polycom is a technology and market share leader.

