

## New 'telepresence' conferencing a new way to do business

by Mike Freeman

Thomas Szabo hit two buttons on the screen of a laptoplike control panel in a conference room at Telanetix in San Diego and up popped Bob Leggio on one of the four huge television screens hanging on the wall.

Leggio, the company's vice president of sales, was sitting in Telanetix's office in New Jersey.

As the two talked, there was no noticeable delay in the conversation as the signal traveled thousands of miles. Leggio's image wasn't jerky or out of sync. The experience wasn't exactly like sitting in the same room. But it was close.

Is videoconferencing finally ready for prime time? San Diego-based Telanetix and about a dozen other technology suppliers are betting it is - thanks to a new generation of systems that stress ease of use and a "like being there" experience.

Although videoconferencing has been around for nearly two decades, analysts say it suffered in the past from over-promising and under-delivering - particularly in the early days. Equipment was complex and difficult to operate. Connections would drop. Voice and video sometimes didn't match up.

"It was such a bad experience that they didn't want to have a second experience," said Claire Schooley, a teleconferencing analyst with Forrester Research in Cambridge, Mass.

Today, Telanetix and others are pushing so-called telepresence. The term refers to videoconferencing systems that go to great lengths - sometimes at great expense - to create the illusion that people are in the same room.

**NEW VIDEOCONFERENCING** - Telanetix markets a videoconferencing system that goes to great lengths to create the illusion that people are in the same room. 'We've had 20 years of videoconferencing and suddenly it's an overnight success,' said CEO Tom Szabo (right) with chief technology officer Rob Arnold. CNS Photo by Nadia Borowski Scott.

"We've had 20 years of videoconferencing and suddenly it's an overnight success," said Szabo, chief executive of Telanetix. "The reason is networks have gotten better. The technology has gotten easier to use, and it feels like being there now." Network equipment giant Cisco Systems and technology behemoth Hewlett-Packard both introduced telepresence systems last year. They join traditional videoconferencing companies such as

PolyCom and Tandberg in offering telepresence rooms.

Telanetix, which became a public company through a reverse merger in 2005, is small, having sold just a few systems. It aims to stand out from its competitors by being the low-cost telepresence provider while still offering enough quality and features to beat traditional videoconferencing systems.

Whether it can pull that off remains a question. It has yet to make money, and auditors have included a "going concern" clause in its financial statements, raising doubts about its ability to stay in business.

But Telanetix executives hope to ride the wave of what they think will be growing demand for telepresence. With travel cost rising, airports becoming more crowded and delays more frequent, telepresence could become a viable alternative to travel, analysts say.

In addition, high-definition television has helped give the real life systems the quality that executives expect.

"Not everyone can afford a telepresence room," Schooley said. "But if you're a top executive in a global organization, and you have four or five locations, you have to communicate with those people. You want to see the body language."

For now, the market is nascent. Fewer than 500 true telepresence systems are installed nationwide, said Ira Weinstein, senior analyst with industry consultant Wainhouse Research in Duxbury, Mass.

But the telepresence niche is the fastest-growing part of the videoconferencing industry. Wainhouse forecasts that sales of telepresence systems are likely to increase 100 percent per year for the next four years but remain below \$1 billion in sales by 2011.

"The growth rate on an annual basis is well above what we've experienced in the industry in the past," Weinstein said.

Telanetix is an upstart in the business. Szabo and the core engineering team came from Digital On Demand, a San Diego company that made song sampling systems for music stores. The company was sold in 2000, and Szabo began tweaking the technology that Digital On Demand used for delivering digital music to stores so it could deliver high quality video to companies.

It took six years to perfect the software compression system and other features that make up Telanetix's system today. "What we did was build our system based on software," Szabo said. "The systems built by our competitors are based on hardware. Because we did it in software, it's a fraction of the price." HP and others aim to control nearly everything in the process - creating dedicated telepresence rooms with high quality camera and audio systems, furniture and network equipment.

That means telepresence rooms are expensive. HP's Halo room, for example, costs about \$425,000. There's another \$18,000 a month for network service.

In contrast, the Telanetix system comes in a kit. The company lets customers design their own rooms working with Telanetix partners, who build the room. The software runs on a standard Linux computer server, not specialty hardware. And the system has a bandwidth sharing feature so it doesn't require a dedicated, separate network - although Telanetix will provide one if customers want it.

Telanetix has sacrificed some quality to keep the price down and give customers flexibility in how they install and use the system, according to analysts.

The target buyer of telepresence systems, however, cares more about the best high-definition video and audio experience than they do about costs, said Andrew Davis, an analyst with Wainhouse Research.

"If your claim to fame is that you're the low-price system, that doesn't fly in this market," Davis said. "If price were an issue, than Cisco wouldn't be at \$300,000 a system and HP wouldn't be at \$400,000."

Telanetix could become stuck in a no-man's land between the expensive high-definition systems and the traditional, non-telepresence videoconferencing systems - which generally cost \$8,000 to \$15,000 each, analysts said.

But Telanetix executives say the company's systems, which cost \$40,000 to \$80,000, and in some cases can be leased for as little as \$1,000 a month, come very close to the quality of the more expensive systems.

"There are not a lot of companies that can afford \$300,000 to buy it, plus another \$15,000 a month in network charges," Szabo said. "The difference (in quality) is so minimal. I don't know why there is so much emphasis on high def as opposed to standard def when it's not necessary for most meetings."

David Danto, an analyst with a large investment bank and executive board member of the trade group Interactive Multimedia & Collaborative Communications Alliance, said Telanetix's software-based system is "slightly lower quality" than some of the hardware-based offerings of its competitors.

"Anybody in the Fortune 100 probably isn't going to take Telanetix," he said. "But if you're a firm with one to 500 or one to 1,000 employees, you want to play in the space and you want a low-price option, this is a perfectly viable low-price option."

Telanetix also touts the flexibility of its system. Features include the ability to talk to more than one location at once. The system also works with existing videoconferencing systems or other telepresence systems. Some of its competitors systems don't offer interoperability or multipoint communication, although they expect to in the future.

Perhaps the biggest hurdle for the 35-employee company is its financial condition. Telanetix lost \$5.47 million in the first quarter, mostly because of charges linked to its debt financing structure.

The company had \$2.7 million in cash at the end of last quarter and posted sales of just \$462,000. About half of that revenue came from sales to a major investor in Telanetix, according to filings with federal regulators.

But the company hopes to cash in on a growing telepresence market beginning in the current quarter.

Szabo said it recently landed several new customers. It is installing six systems for Mercedes-Benz. Mortgage lender Countrywide has bought some systems for distance education of employees. Lakeshore Entertainment has used the system to communicate between a movie set in the Pacific Northwest and production operations in Hollywood and New York.

"We're just coming into the range of breaking even," Szabo said. "We need about a \$2 million a quarter run rate to do that. Our first quarter was about \$500,000. We expect to be in the \$2 million range this quarter. And we expect to continue to grow."

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