

RADVISION
Fourth Quarter 2009 Conference Call
February 3, 2010

June Filingeri: Thank you. Good Morning. This is June Filingeri of Comm-Partners. Thank you for joining us today. We are here to discuss RADVISION's Fourth Quarter 2009 results, the First Quarter Outlook and the Aethra transaction reported this morning. With us from management are Boaz Raviv, Chief Executive Officer, Adi Sfadia, Chief Financial Officer and Bob Romano, Vice President of Enterprise Marketing. Today's earnings release can be found in the Investor Relations section of the company's Web site at radvision.com. A copy of Boaz and Adi's formal remarks will be posted on the Web site later today.

Before beginning the call, I would like to remind everyone that management will make forward-looking statements. These are subject to risks and uncertainties that may cause actual results to differ materially from the forward-looking statements. These risks and uncertainties include, but are not limited to, general business conditions in the industry, changes in demand for products, the timing, amounts, or cancellation of orders, and other risks detailed from time to time in RADVISION's filings with the Securities and Exchange Commission, including the company's Form 20-F annual report. In addition, all the information provided today is current as of this date, and management assumes no obligation to update in the future, any of the information provided on the call.

I would now like to turn the call over to Adi Sfadia.

ADI SFADIA, CFO

Thank you, June, and good morning everyone. Thank you for joining us for the fourth quarter conference call.

Let me start with our announcement today that we will be acquiring selected assets of Aethra, mainly IP and technology, for high definition video conferencing systems.

The purchase price for the assets acquired is about 7 million Euros cash, which is equivalent to \$10 millions. In addition, we will assume specific liabilities related to the acquisition of about 3 million Euros, which is equivalent to \$4.3 million. The transaction-related costs are estimated at \$1 million and we recognized a portion of them in the fourth quarter of 2009. The transaction is expected to be accretive starting in the fourth quarter of 2010. The agreements were approved by the Boards of Directors of both companies and were incorporated in Aethra's pre-insolvency plan, which was filed with the Italian court.

The purchase agreements have several components. The major one is the purchase of Aethra's IP and technology, which the Italian court approved on January 25th. It is now subject to the fulfillment of several preconditions stated in the agreements.

Other components of the transaction include the purchase of additional fixed assets and some commercial agreements, which are still subject to Italian court approval. Boaz will discuss the strategy behind this decision shortly.

I will now move to our financial results. Allow me to remind you that we are posting a Power Point presentation on our WEB site with all the figures that I will present today.

I will start with some very brief highlights of our full year 2009 results.

Revenues reached \$81 million, 4% lower than 2008.

As you know, we were able to reduce our OPEX to a more normal level in 2009, following two years of accelerated investment. As a result, we are reporting 2009 non-GAAP operating income of \$7.9 million and non-GAAP net income of \$9 million, or 46 cents per diluted share. This is compared with a non-GAAP operating loss of \$9.6 million and a non-GAAP net loss of \$5.9 million in 2008.

Non-GAAP results exclude the effects of option expenses and Auction Rates Securities write-downs in 2009. Non-GAAP net income also excludes a write-down of deferred tax assets of about \$4.3 million, equivalent to 22 cents per diluted share. I will discuss this in my review of the fourth quarter results in a moment. During 2009, we generated cash flow of about \$7.6 million from operations, compared with \$4.6 million in 2008.

Let's turn to the results of the fourth quarter.

Total fourth quarter revenues were \$22.7 million, an 11.1% increase over the previous quarter, and at the same level as the fourth quarter of 2008. Our Networking Business Unit had revenues of \$18.4 million, 5.8% above the fourth quarter of 2008 and an 18% increase over the previous quarter. Our room conferencing sales excluding Cisco grew by 50% over the previous quarter, but were slightly below the fourth quarter of 2008. Our TBU sales were \$4.3 million, a 12% decrease over the previous quarter, and a 20% decrease over the fourth quarter of 2008.

As for the geographic revenue mix, Americas represented 60% of revenues, EMEA 18% and APAC 22%. Looking at customer concentration, our top 10 customers generated about 64% of revenues, vs. 70% in the third quarter. Our Cisco sales represented slightly more than 40% of our total revenues and, once again, was the only customer exceeding 10% of total revenues.

I would now like to discuss operating expenses in the fourth quarter of 2009. All numbers are non-GAAP and exclude the effects of stock-based compensation and other one-time charges. These effects can be found in the press release.

The non-GAAP gross margin was 79.5%. Operating expenses were \$13.9 million, or 61% of revenues. This compares with 67% in the previous quarter and 83% in the fourth quarter of 2008. Sales and marketing totaled \$6.5 million, representing 29% of revenues. R&D was \$6.3 million, or 28% of revenues. G&A was \$1.2 million, or 5% of revenues. In addition, we recognized about \$600,000 of acquisition related costs, mainly for legal and due diligence.

Fourth quarter non-GAAP operating profit was \$4.1 million, which was 21% above our forecast of \$3.4 million. Non-GAAP net income was \$4.4 million, or 23 cents per diluted share, compared with our forecast of \$3.3 million, or 17 cents per diluted share. The effect of stock based compensation was \$1 million on the quarter's net income, or 5 cents per diluted share.

During the quarter, we wrote down approximately \$4.3 million of deferred tax assets, net. This was due to uncertainty about our future revenues from Cisco, which we expect to decline gradually in 2010, as well as the effect on our profits if those revenues are not replaced. We also were not able to take into account any additional revenues from our purchase of the Aethra assets, because it did not take place in 2009.

Looking now at our balance sheet, we ended the quarter with cash and equivalents of about \$126 million, or \$6.47 per basic share, which is an increase of \$6.1 million from the previous quarter. This reflects \$6.3 million of cash flow provided from operations, \$400,000 from the exercise of options, offset by \$600,000

used for capital expenditures. Inventory turns are 19 days. DSOs decreased to 47 days, compared to 56 days in the previous quarter. The rest of the balance sheet remains very strong. We have no debt and our cash and equivalents, including long-term investments, represent about 78% of our total assets.

Turning to our guidelines for the first quarter of 2010: We expect total revenues to be \$20 million, which is below the fourth quarter, mainly due to seasonality, but 9% ahead of the first quarter of 2009.

Our gross margin is expected to decrease to approximately 76%, mainly because of VC 240 sales, which generate a lower gross margin. Our operating expenses are expected to be about \$16.2 million, which includes operating expenses for Aethra. We expect to maintain that approximate level of operating expenses for the balance of 2010.

As a result, for the first quarter of 2010 we are forecasting a non-GAAP operating loss of about \$950,000 and a non-GAAP net loss of about \$800,000, or 4 cents per diluted share. We estimate option expenses at about \$700,000 and other one-time acquisition costs of about \$400,000. Therefore, we expect a net loss on a GAAP basis of \$1.9 million, or 10 cents per diluted share. The forecast does not include accounting treatment of the purchase price for the Aethra assets, which is still the subject of a purchase-price-allocation study now underway.

This concludes my financial review I would now like to turn the call over to Boaz.

BOAZ RAVIV, CEO

Good morning and good afternoon everyone. Adi, thank you for your report today.

As Adi said, our revenues for the Fourth Quarter reached nearly \$23 million, which exceeded our forecast because of the better than expected performance of our Networking Business Unit. In fact, our NBU had its best quarter since the Second Quarter of 2007 and achieved revenues that were 18% higher sequentially, 6% higher year-over-year and 12% above our forecast. The main driver of this strong performance was the success of our new SCOPIA Elite, which is the most powerful MCU in its category available on the market today.

We have worked for more than two years to re-establish our technology leadership and are deeply pleased to show you the tangible results of that effort. We have also focused on strengthening our reseller relationships. I can report that our sales of RADVISION-branded products were at their highest level of the year. They represented more than 40% of Fourth Quarter NBU sales.

As we announced this morning, we have now taken another major step to extend our product portfolio by purchasing selected assets of Aethra. These include certain intellectual property and technology for high definition video conferencing endpoint systems. Adi has already described the terms of the transaction, so I will focus on the strategy behind it.

By integrating Aethra's High Definition video endpoint technology with our network infrastructure, management software and desktop solutions, we will be able to offer a more complete videoconferencing portfolio for the enterprise market.

The rapid change and consolidation in the video marketplace have caused many of our partners to urge us to provide them with such an end-to-end video solution. These include our Unified Communications partners as well as our reseller channels, where the Cisco-Tandberg deal has created a great deal of turmoil. The addition of Aethra's High Definition video assets will enable us to quickly provide a very

high quality and competitive endpoint product to the market, with the price-value advantage for which we are recognized.

We know Aethra's technology well. Aethra, which was founded 38 years ago, became a RADVISION reseller in 2001 and then an OEM partner in 2005. Aethra is a privately-owned company with multiple divisions, and, unfortunately, recently ran into financial difficulties.

Aethra had an established reputation for innovation in video technology. They recently developed High Definition video conferencing technology, which offers top-of-the-range 1080p performance and we feel, is best of breed. Their compact form factor, customized camera and graphical user interface are all elegantly designed. This solution is suitable for video conferencing in a full range of enterprise conference rooms. The assets we are acquiring include the Intellectual Property and technology for this complete solution.

Adding High Definition video conference room endpoints to our portfolio is complementary to our introduction of the VC 240, the break-through desktop endpoint we co-developed with SAMSUNG. We also plan to capitalize on Aethra's distribution network to deepen our overlapping channel relationships and add new ones.

We intend to move quickly to tightly integrate Aethra's technology with ours, and to begin shipping products based on the Aethra technology at the end of Q2. Our current target is for initial sales of about \$3 to \$5 million per quarter in the second half of 2010, followed by a much more substantial ramp-up in sales in 2011. We expect the acquisition to be accretive in Q4 2010.

We are very excited to be able to take this next step and offer the market a more complete end-to-end solution with the highest quality video experience. We expect to see a very important return on our investment in the Aethra technology.

Now let me turn to my review of the performance of our Networking Business Unit in the Fourth Quarter, starting with our results from Cisco.

As everyone is aware, our NBU is facing a major challenge in 2010 – the progressive loss of revenues from Cisco, as we discussed in our Q3 call. By extending our product portfolio with the Aethra technology, we are broadening our platform to help replace those revenues. While we cannot predict the pace at which we will need to replace them, we told you last time we would not lose Cisco revenues overnight. In fact, we had better than expected revenues from Cisco in the Fourth Quarter of 2009, due to their enthusiastic adoption of the SCOPIA Elite.

I also noted on our last call that the SCOPIA Elite was so well received by Cisco that it was certified and adopted by all business units ahead of schedule, which led to strong revenues from Cisco in the Third Quarter. Our Fourth Quarter was even better. As part of the introduction of the 7.0 release at Cisco, we held technical seminars and campaigns to fully inform the Cisco sales force about its features and advantages. Now Cisco is actively conducting its own marketing campaigns in APAC, EMEA and the Americas, which is driving demand. In addition, our smaller models of the SCOPIA Elite for Cisco became available in December, also ahead of schedule. The 10-port Elite is especially well-suited for Telepresence deployments and Cisco is pushing forward fully on its Telepresence sales as well. There also were large deployments of Meeting Place in the Fourth Quarter and there are more in the pipeline.

All these factors contributed to our strong Cisco sales in Q4. Cisco now has the advanced HD platform and audio solution from RADVISION that they required and which they invested in. Customers are reacting very positively to our new platform at a time when demand for video may be at its highest level

ever. The Cisco sales force has what it needs today and, understandably, is moving forward aggressively to capture the sales opportunity in video that exists today.

While this affirms the strength of our SCOPIA Elite, it is important not to lose sight of the fact that our relationship with Cisco has changed. As a result, we expect that our sales to Cisco in the First Quarter of 2010 will represent 35% to 40% of total RADVISION revenues, compared to 42% of revenues for the full year of 2009. Although there is some seasonality in the Quarter, our forecast is still consistent with our previous forecast that Cisco sales will step down progressively this year.

Accordingly, we have been moving forward aggressively to build our future beyond Cisco. In addition to our decision to purchase the Aethra technology, we continued to focus on our channel relationships in the Fourth Quarter.

I mentioned last quarter that we were working closely with the IBM Sametime group to release an end-to-end solution with Sametime 8.5. We introduced that solution on January 18th at Lotusphere and IBM chose to showcase our solution in their keynote presentation at their show. As you know, we have provided video conferencing and connectivity capabilities to Sametime since 2006, when RADVISION became the first company to release an infrastructure solution for IBM. We have now enhanced our IBM integration to fully support their latest version, Sametime 8.5, with our SCOPIA Elite at the center. As a result, Sametime 8.5 offers a range of new features including:

- High Definition multiparty conferencing up to 1080p,
- Connectivity to Telepresence systems as well as to video conferencing rooms, desktop systems, and 3G mobile phones
- High error resiliency with H.264 SVC connections between MCUs
- Ease-of-use, both for administrators and for Sametime users, with no additional installation required.

We also continued to pursue opportunities with other Unified Communication players in the Fourth Quarter, including Microsoft, with whom we believe we have a distinct advantage in pursuing the opportunity created by the Cisco-Tandberg combination. We are working with Microsoft on joint product opportunities. We will update you on specific plans when they are finalized.

Our sales to LifeSize were nearly double those of the Fourth Quarter of 2008, but were lower than in the Third Quarter. With their acquisition by Logitech now complete, we have resumed our normal level of activity together.

Our very important relationship with SAMSUNG continued to move forward in the Fourth Quarter. We completed the integration of our SVC technology into the VC 240, while SAMSUNG proceeded with production ramp-up at the end of December, reaching full production levels in January. We are working on our joint marketing campaigns with SAMSUNG, developing agreements with appropriate SAMSUNG subsidiaries and further collaborating on our future product development roadmap. We were pleased to present the VC 240 along with the SCOPIA Elite in the Samsung booth at the Consumer Electronic Show in Las Vegas. And, as we announced in January, the VC 240 won the Unified Communication Award for 2009 from TMC. I already noted that the VC 240 is opening doors for us with new and existing channel partners and resellers. We have received orders for the VC 240 in every region and the excitement continues.

Turning to my review of the performance of our NBU by region, we saw very strong growth in our NBU sales in APAC in the Fourth Quarter, both sequentially and year-over-year, driven by several important strategic projects based on the SCOPIA Elite. Three were projects in the Australia/New Zealand region spanning the healthcare, education and transportation verticals. There was also a major government project in China as well as an important deal for the Elite with a multinational industrial manufacturer in

Korea, which is using it for internal networking. In addition, we had a very good quarter in Southeast Asia as well as in Japan, where we have begun to benefit from our new relationship with IBM Global Services.

In EMEA, our total NBU revenues were nearly double those of the 2009 Third Quarter but were below those of the prior year, which included Aethra sales. We had important strategic deals there during the Quarter because of the SCOPIA Elite. I previously reported on our success, in partnership with IBM, with two major accounts – a major Italian bank and a multinational food company in France. We extended those deployments in the Fourth Quarter with the adoption of SCOPIA Elite by both companies. Several more customers in Italy also adopted SCOPIA Elite for their deployments, including our major carrier customer there and others in the public sector. There were additional wins in France. A major French bank purchased our SCOPIA Elite and demonstrated its integration with Microsoft, Lotus and Cisco. A leading French insurance company is deploying SCOPIA for room system connectivity for its executives. We also had deals there with a major government health agency and three universities. In the U.K., where we are strengthening our sales organization and have expanded our reseller channel, we won a SCOPIA Elite deal for a healthcare-related organization. In Germany, we had major wins in the military and transportation sectors. Africa continues to present strong opportunities, especially in countries where capital is being invested in communications infrastructure. One of our deals there was in a government healthcare agency. We are continuing to add strategic partners throughout the region. We also had sales through Alcatel Lucent throughout the region.

In the Americas, in addition to the strong performance in Cisco sales in the Fourth Quarter, we also realized 43% sequential growth in our direct channel sales. One major deal was in CALA. We have closed on a major project in Brazil for a state government agency. The agency's goal is to bring together 40 branches, enabling better communication, more productivity, and improved services. This was a competitive bid that we won through a reseller with whom we have had a seven-year relationship.

Recognizing that our U.S. business will be affected the most by the gradual decrease of Cisco sales, we are placing major emphasis on strengthening our channel partnerships throughout the Americas. This includes redirecting our resources to focus on training and other relationship-building initiatives with our channel partners and on increased direct-touch support. The addition of a High Definition room conferencing endpoint to our portfolio should be highly beneficial in the Americas market, where channel partners look for an end-to-end solution more than in other markets.

Turning to our Technology Business Unit, revenues were below forecast in the Fourth Quarter mainly because we had to delay shipment of the last milestone of a major project. I have previously mentioned the project, which is for a large PBX vendor. The revenues are now expected in the First Quarter. Despite the revenue shortfall, there are several accomplishments in the Quarter to highlight.

This was the second quarter in which we saw increased sales in the area of SIP Server with a focus on embedded, IMS and video applications. We have distinctive advantages in each of these applications, including offering a comprehensive solution when they are in combination. We had four major deals for our SIP Server focusing on these areas in Q4: two in the U.S. and two in APAC.

In the area of mobile video telephony, we announced in January that MediaTek, a leading fabless semiconductor company headquartered in Taiwan, has licensed our 3G stack to embed mobile video telephony into their WCDMA baseband processors.

Building on our mobile video telephony solutions and reputation, we have expanded our technology to the emerging Android Operating System. We won four Android-based projects for 3G and video telephony in the Fourth Quarter – in Korea, China and Taiwan – including a Tier 1 mobile phone

manufacturer. The first commercial devices, which are expected to be launched in Q2, have nice royalty potential. We see mobile video and the Android segment growing and expect to have more significant wins in coming quarters.

Turning to my conclusion, the Fourth Quarter capped a year of important accomplishments for RADVISION. It was the year that we reestablished our technology leadership through the delivery of our next generation SCOPIA Elite MCU and refreshed our SCOPIA portfolio, incorporating our new SVC technology. We also took the market by surprise with the introduction of the VC 240, which was co-developed with SAMSUNG. The VC 240 is part of our continuing effort to accelerate the growth of videoconferencing by democratizing and commoditizing video endpoints.

2009 was also a year of challenges, both expected because of the economic conditions at the beginning of the year, as well as unexpected, namely the decision by Cisco to buy Tandberg. There is no doubt that replacing Cisco revenues is a central challenge for 2010 and a major priority. However, our strategy goes beyond simply replacing lost revenues from Cisco.

Rather, our plan is to powerfully advance RADVISION to take full advantage of the huge market opportunity created by surging video demand as well as by the market disruption caused by industry consolidation.

Our purchase of the Aethra technology is a major step forward in this plan, enabling us to build upon our current product portfolio and quickly offer the market a more complete end-to-end High Definition videoconferencing solution at the highest level of quality for which we are recognized.

We have much to accomplish in 2010. The RADVISION team is fully energized and focused on overcoming the challenges ahead and taking advantage of the abundant opportunities we see before us.