

RADVISION
Fourth Quarter 2010 Conference Call
February 10, 2011

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 results and First Quarter Outlook. 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 press release can be found in the Investor Relations section of the company's Web site at www.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.

ADI SFADIA, CFO

Thank you, June, and good morning everyone. Thank you for joining us for the fourth quarter conference call. 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 2010 results. Revenues reached a record of \$95.2 million, 17.6 percent higher than 2009.

We are reporting 2010 Non-GAAP operating income of \$4.7 million and Non-GAAP net income of \$4.4 million, or 23 cents per diluted share. This is compared with a Non-GAAP operating income of \$7.9 million and non-GAAP net income of \$9 million in 2009.

Non-GAAP results exclude the effects of stock-based compensation, amortization of purchased intangibles, as well as one-time charges related to our Aethra acquisition, and write downs of auction rates securities and deferred tax assets. These effects also can be found in the press release

During 2010, we generated cash flow of about \$7.1 million from operations, compared with \$7.6 million in 2009.

I will now turn to the results of the fourth quarter. Total fourth quarter revenues were \$26.6 million, a 9 percent increase over the 2010 third quarter, and 17 percent over the fourth quarter of 2009.

Our Video Business Unit, which includes our infrastructure and endpoint businesses, had revenues of \$22.6 million, which is 23 percent above the fourth quarter of 2009, 9 percent above the previous quarter, and 5% above forecast. Our non-OEM VBU sales grew by 25 percent over the previous quarter and by 97 percent over Q4 2009.

Our infrastructure revenues were \$17.7 million, 8 percent above the previous quarter and 4 percent less than the fourth quarter of 2009. This includes a decrease in Cisco revenues of 32 percent from the fourth quarter of 2009 and 10 percent from the previous quarter, which is in line with our expectation. Our endpoint revenues were about \$4.9 million, an increase of 14 percent from the previous quarter.

Our TBU sales were \$4 million, a 4 percent increase over the previous quarter, and a 5 percent decrease over the fourth quarter of 2009.

As for the geographic revenue mix, Americas represented 41 percent of revenues, EMEA 33 percent and APAC 26 percent.

Looking at customer concentration, our top 10 customers generated about 49 percent of revenues, vs. 54 percent in the third quarter. Our Cisco sales represented about 26 percent of the quarter's revenues and once again it was the only customer exceeding 10 percent of total revenues. We expect Cisco revenues to continue to decline progressively in 2011 as we have discussed previously.

I would now like to discuss operating expenses in the fourth quarter of 2010. All numbers that I will discuss are non-GAAP and exclude the items I mentioned for the full year.

The Non-GAAP gross margin was 72.9 percent, which was better than our forecast because of a different revenues mix than expected. Operating expenses were \$16.4 million, or 62 percent of revenues. This compares with 66 percent in the previous quarter. Sales and marketing totaled \$7.7 million, representing 29 percent of revenues. R&D was \$7.4 million, or 28 percent of revenues. G&A was \$1.3 million, or 5 percent of revenues. Fourth quarter non-GAAP operating profit was \$3 million, which was 20 percent above our forecast. Non-GAAP net income was \$2.9 million, or 16 cents per diluted share, which was 4 cents above our forecast.

The effect of stock based compensation was \$800,000 on the quarter's net income, or 4 cents per diluted share. During the quarter, we recorded amortization of acquired intangibles of about \$500,000. In addition, we recognized about \$300,000 of restructuring costs. This represents an additional portion of Italian labor-related liabilities from the Aethra acquisition. The Auction Rate Security write-down this quarter was about \$34,000. The total of all items excluded for non-GAAP purposes was \$1.6 million, or 9 cents per diluted share. GAAP net income was \$1.4 million, or 7 cents per diluted share, one cent better than our forecast.

Looking now at our balance sheet, we ended the quarter with cash and equivalents of about \$116 million, or \$6.27 per basic share. This represents an increase of \$900,000 from the previous quarter. This reflects \$1.7 million of cash flow provided from operations, offset by \$800,000 used for capital expenditures. Inventory turns are 32 days. DSOs increased to 52 days, compared to 44 days in the third 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 70 percent of our total assets.

Turning to our guidelines for the first quarter of 2011: We expect total revenues to be \$24 million, which is below the fourth quarter, mainly due to seasonality and additional expected decline in Cisco revenues, but 16 percent ahead of the first quarter of 2010.

Our gross margin is expected to slightly decrease to approximately 72.5 percent due to additional endpoint revenues added to our revenue mix. Our operating expenses are expected to be about \$17.4 million. The main reasons for the increase in our OPEX spending are less favorable Dollar Shekel exchange rates, as well as a planned increase in spending on sales and marketing activities to support our revenue growth.

As a result, we are forecasting non-GAAP operating income of about \$50,000 and a non-GAAP net income of about \$200,000, or 1 cent per diluted share.

We estimate option expenses at about \$550,000 and amortization expenses of about \$500,000. Therefore, we expect a net loss on a GAAP basis of \$900,000, or 4 cents per diluted share.

BOAZ RAVIV, CEO

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

As Adi said, our Fourth Quarter revenues reached a record of \$26.6 million and were ahead of forecast due to the strong performance of our Video Business Unit. In fact, our VBU revenues were \$1 million better than we expected as the transformation of RADVISION to an end-to-end video solutions provider gained traction.

The extent and scope of that traction is clearer in a close look at the numbers. The 23% increase in our VBU revenues from the Fourth Quarter of 2009 was achieved despite a continued step down in Cisco sales as well as the full wind-down of our relationship with LifeSize, which we initiated upon their introduction of an MCU, per our contractual agreement.

Before including the OEM revenue contributions in either Fourth Quarter period, our non-OEM VBU revenues nearly doubled, rising 97% from the Fourth Quarter last year. Using the same analysis, while our total VBU revenues increased 9% sequentially, our RADVISION-brand revenues rose 25% over the 2010 Third Quarter.

Our full year 2010 revenues reached a record of \$95 million, increasing 18% from 2009. Our full year RADVISION-brand revenues increased 44%.

Now let me review our Fourth Quarter performance.

There were three major drivers of our VBU revenue growth in Q4:

The first was our successful introduction of endpoints in 2010, beginning in the First Quarter with the SCOPIA VC 240 all-in-one desktop device. This was followed by our SCOPIA XT High Definition videoconferencing product line late in the Second Quarter. By Q4 2010, endpoints represented 22% of total VBU revenues and enabled us to overcome a 34% decline in OEM sales from Q4 2009.

The second major driver of our revenue increase was the growth in our network infrastructure. In total, RADVISION-brand infrastructure revenues increased more than 35%, both over the Fourth Quarter of 2009 and sequentially, demonstrating the further success of our SCOPIA Elite solution, which is widely recognized for its interoperability, ease of use, and affordability.

As I mentioned last time, we began shipping Version 7.5 of SCOPIA in October with its extensive enhancements, including breakthrough technology for telepresence interoperability, advanced data collaboration, and enhanced Unified Communications capabilities. SCOPIA Mobile Version 2 quickly followed in December. It is the first application of its kind that allows users of mobile platforms, including the iPhone and iPad, to participate in video conferences with standards-based audio and data collaboration.

The advantages of our solution were critical to our success in further growing our reseller channel network in the Fourth Quarter, which was the third major driver of the growth of our VBU. Our recently introduced Eye-to-Eye Partner program is being well received by our channel customers. Our channels appreciate the level of commitment and support as well as our clear marketing and technology roadmaps.

The best evidence of the progress of our channel strategy is the growth of our VBU, even as we move away from our significant OEM relationships.

To accelerate our channel success and further build the RADVISION End-to-End solution brand, we have made the strategic decision to invest in sales and marketing in 2011. Our investments will range from increasing our sales force to the training programs and support of the Eye-to-Eye program, as well as new branding initiatives. Let me assure you that we will execute this plan conservatively and adjust it as needed.

There is no better example of our progress and traction in the Fourth Quarter than in our EMEA region, where we had the best quarter ever. Our VBU revenues in EMEA tripled from the Fourth Quarter of 2009 and increased 57% from the Third Quarter of 2010. We saw substantial growth in both network infrastructure and endpoint sales and added important resellers and distributors throughout this extensive and diverse region. I will highlight several deals that demonstrate the scope of our progress.

For example, customers in several countries and in sectors ranging from finance and manufacturing to education and government decided to upgrade their SCOPIA Classic deployments by investing in our SCOPIA Elite. Among them were two prestigious Service Providers, including Orange Business Services, which aims to be one of the three largest VC providers in the world. The other service provider was our long-standing customer in Italy that uses our infrastructure both internally and for their hosting platform.

We also won major deals for new deployments of RADVISION infrastructure. A Service Provider in Spain is offering managed video services based on our SCOPIA Elite, including Telepresence interoperability, while a leading French pharmaceutical laboratory chose the SCOPIA Elite for deployment throughout its global offices.

We see more and more customers adopting full RADVISION end-to-end solutions that include SCOPIA infrastructure, endpoints, mobile and management. For example, in the Nordic region, a major industrial manufacturer chose our SCOPIA infrastructure for their global deployment and placed an initial order for SCOPIA XT1000 endpoints. There were similar deals in Poland, Russia, Central Africa, and the UK.

We extended our distribution channel across EMEA in the Fourth Quarter. We enrolled important resellers and signed up several distributors with the Eye-to-Eye program, including one distributor in Western Europe who was working with a competitor. We also added resellers in the UK and Hungary.

Our VBU in the Asia Pacific region also achieved record results in the Fourth Quarter. In total, our VBU revenues in APAC increased 56% from the Fourth Quarter of 2009 and were up 11% from the very strong 2010 Third Quarter.

It is worth noting that we are not just starting out in the important emerging markets of APAC. We established our presence there many years ago. Over that time, we successfully sold products under the RADVISION brand and formed a dedicated channel network, which is the strategy we are now adopting company-wide. Our addition of endpoints enabled us to take our revenues in the region to a new and higher level.

In the Fourth Quarter of 2010, we achieved record sales in China and Japan, which contributed to our very good results.

In China, growth in our core business was coupled with especially strong endpoint sales. Frost & Sullivan acknowledged our accomplishments in China when they presented us with their 2010 China Best Practice Award for Excellence in Video Technology Innovation.

Our record results in Japan were driven by network infrastructure sales, with many strategic projects for high profile customers. These included a leading global financial services company and a major insurance company. We also had a major deal with a large videoconferencing service provider that will use our technology internally as well as resell it. Our continued success in Japan is based on our top-tier channel and we added another prestigious partner in the Fourth Quarter.

We also had major infrastructure deals in Taiwan in the government sector and in Korea in the automotive sector. We received a large order in Australia from a recently added channel partner.

In the Americas, VBU revenues declined by 20% year-over-year and 10% sequentially, as it is the region most affected by our transition away from our OEM relationships. However, our team is fully focused on moving forward, as can be seen in our RADVISION brand revenues in the Americas, which increased 54% from the Fourth Quarter of 2009 and 7% from the Third Quarter of 2010.

Essential to our progress are the inroads we have made in establishing a market presence for the RADVISION brand while advancing our reseller channel relationships throughout the Americas. In the Fourth Quarter, we added a well-regarded and experienced reseller to our network in the U.S. – Face to Face Live, which has chosen to expand their portfolio of products with our SCOPIA Elite infrastructure and SCOPIA Desktop as well as our VC240 and XT1000 endpoints.

We saw a continued step-up in endpoint sales in the Americas in the Quarter along with several significant infrastructure deals. Three were in the financial services sector.

These included the continued roll-out of our technology by a major customer I mentioned on the Second Quarter call that chose our solution based on SCOPIA Desktop and our ability to support their extensive worldwide deployment. They have continued to add to their capacity each quarter since then. There was also a large competitive win with a financial company looking to add desktop video and to leverage their existing room systems. We won based on product and quality. The third deal in the sector was with a company initially interested in the VC240 alone but they added the SCOPIA Elite after seeing how it could be used to centralize their existing and extensive desktop capabilities throughout the organization. We won this competitive bid based on the strength of our overall solution and our value proposition.

In a competitive bid in South America, which continues to be a strong market for us, a government agency in Chile chose our XT1000 and SCOPIA Elite to provide visual collaboration to every regional branch of the organization for meetings and training.

We had multiple deals with our partner Alcatel Lucent in the Americas in the Fourth Quarter as well as in EMEA, where our sales with them reached the highest level to date.

Our long-standing relationship with IBM remains very productive worldwide and we are pleased that they use our products internally. In the Fourth Quarter, we had a large deal with IBM in the US. Also, our joint customers in Europe continued to expand their deployments and we won a new IBM integration with a medical company in Switzerland.

Many of the opportunities we have had across all regions result from the disruptive changes that continue to take place in the videoconferencing market as the major Unified Communications players hone their strategies and choose partners to support them. RADVISION is moving on several fronts to optimize our position in the changing landscape.

The latest example is the SCOPIA Video Gateway for Microsoft Lync 2010, which delivers interoperability for Lync with standards-based videoconferencing solutions. We have designed this

gateway with a new architecture to meet the ease of use, scalability and affordability requirements of the broad UC market. The Lync Gateway is currently in beta testing with selected customers and we expect to ship the product this quarter. Last week, we demonstrated it at the ISE trade show in Amsterdam, where customer interest was high. We believe it could open doors with the Fortune 1000 companies who use Lync.

TBU revenues have been stable in recent quarters. The progress our TBU has made in technology development, innovation, and engineering strength has been consistently important and is increasingly contributing to the video focus of the company.

Our BEEHD family of multi-media client framework solutions is a prime example. These solutions give developers Do-It-Yourself tools for adding video capabilities to the full range of UC endpoints, mobile devices, and other consumer products, which have attracted an important and growing interest in the market.

There were several important deals for our BEEHD video clients and testing solution in all regions in the Fourth Quarter. One of the largest ODMs in APAC chose BEEHD for their strategic move from straight ODM manufacturer to an end-to-end solution provider and will be using BEEHD technology for their entire product line. Our TBU sees the market moving aggressively towards video communication and our comprehensive range of technology and expertise are in line with market trends and needs.

In conclusion, the transformation of RADVISION into an end-to-end video solutions provider and our move away from OEM partnerships towards RADVISION brand sales, gained traction in the Fourth Quarter. This traction is reflected in the strong growth of our VBU revenues, which were driven by our successful introduction of endpoints, the continued strength of our SCOPIA network infrastructure, our affordable solutions, and our progress in building our direct channel network. It was accomplished even with the step down in our OEM revenues. The RADVISION brand is gaining increasing recognition as we emerge from behind the names of others. Our investment in sales and marketing in 2011 is a strategic next step in this process.

We continued in the Fourth Quarter to position our Company for opportunities created by the strength of videoconferencing demand, by the consolidation of industry players, and by the evolving strategies of the Unified Communications leaders. Our new SCOPIA Gateway for Microsoft Lync and our TBU's BEEHD technology are two recent examples of our UC strategy.

After achieving record 2010 revenues, we have entered 2011 excited about our new opportunities but realistic about our challenges. Most important is to continue to replace OEM revenues while achieving additional growth and increased profitability.

We will continue to execute our plan to achieve both, as we confidently focus on the future. This concludes my formal remarks. Thank you for your attention. Operator, we are now ready to take questions.