RADVISION
Third Quarter 2007 Conference Call

Coordinator: Good morning, and welcome to the RADVISION conference call. All participants will be in a listen-only mode until the question and answer session of the conference call. This conference call is being recorded at the request of RADVISION. If you have any objections, you may disconnect at this time. I would like to introduce your Host for today, June Filingeri of Comm-Partners. Ma'am, you may begin.

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 Third Quarter 2007 results. With us from management are Boaz Raviv, Chief Executive Officer, and Tsipi Kagan, Chief Financial Officer. 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 Tsipi'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.

With these formalities out of the way, I would now like to turn the call over to Tsipi Kagan. Tsipi, you may begin.

Tsipi Kagan, Chief Financial Officer

Thank you, June, and good morning everyone. Thank you for joining us for our Third 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.

Let's look at the results of Q3. Total revenues were $20.7 million, a 12% decrease from Third Quarter 2006 revenues. It was a disappointing quarter for RADVISION and I will discuss the reasons shortly.

Our NBU, which sells network infrastructure for multimedia and visual communications, had revenues of $14.5 million, a 19% decrease from Q3 2006. The main decrease in our NBU revenues was expected and came from our Cisco channel, which was about 30% below Q3 2006. If we look back at Q3 2006, it was the time we had come out with the new SCOPIA hardware platform and Cisco had acquired a significant amount of the product for their internal use.

As I mentioned, Cisco revenues were in line with our expectations for the quarter. As for the Non Cisco revenues in the quarter, our Federal revenues were about a million dollars lower than expected, due to lower budgets and about $800,000 of deal slippage into the current fourth quarter.

As for the other non-Cisco channels, we had an issue with our product readiness. The SCOPIA V5.5, which we have just announced, can support HD continuous presence, a feature that our competition had already provided. Boaz will speak about it in more detail.

3G revenues were $2.2 million in the third quarter compared with $1.6 million in Q3 2006, and we continue to see an increased demand for our Interactive Video Platform both for consumers and Enterprise applications.

Our TBU had revenues of $6.3 million, a 7% increase over Q3 of 06. The TBU unit sells developer toolkits and solutions for voice and video over IP, 3G and Next Generation Networks.

As for the geographic revenue mix, Americas represented 60% of revenues, EMEA 21% and APAC 19%. Looking at customer concentration, our top 10 customers generated 56% vs. 67% of the first quarter revenues.

I will now discuss the expenses in the third quarter of 2007. All numbers that I will discuss are Non-GAAP and exclude the stock based compensation expenses according to FAS 123R. Numbers including the effect of stock based compensation are presented in the press release.

Gross margin for the third quarter was 81% slightly better than forecasted, versus 80% last year.

Operating expenses this quarter were $16.8 million, as guided. Third Quarter sales and marketing totaled $7.5 million, representing 36% of revenues and $200,000 less than guidelines. R&D was $7.1 million, representing 34% of revenues, and $300,000 less than guided. G&A was $2.2 million, or 11% of revenues. G&A expenses were $500,000 higher than guided, as a result of legal fees relating to a lawsuit that originates back to FVC. We reached a settlement during the quarter and therefore we don’t expect more legal expenses going forward.

Excluding stock based compensation, Third Quarter operating profit was $32,000. Net income for the quarter was $1.6 million, which represents 7 cents per diluted share. This compares with net income of $3.2 million or 23 cents per diluted share in the same quarter last year.

The effect of stock based compensation was $1.4 million on the quarter’s net income, or 6 cents per diluted share. Net income including stock based compensation was $234,000 or 6 cents per diluted share.

Looking now at our balance sheet: We ended the quarter with cash and cash equivalents of approximately $135 millions, an increase of $3.3 million from the prior quarter, and equivalent to $6.21 per basic share. The increase reflects cash flow from operations of 9.3 million dollars offset by the use of $6.3 million for the repurchase of 361,240 of Company shares, $700,000 of capital expenditures and proceeds of $900,000 from the exercise of options.

Inventory turns are 40 days. During the quarter, the company moved to a full turnkey manufacturing. DSOs decreased to 61 days from 65 days in the previous quarter. The rest of the balance sheet remains strong as well. We have no debt and our cash and equivalents, including long-term investments, represent 77 percent of our total assets.

Turning to Fourth Quarter 2007 guidelines: We expect total revenue to be $22 million, which represents a 6% increase over Q3. We expect our gross margin to remain high at approximately 81%. Operating expenses are expected to stay at the same level. As a result, we are forecasting an operating profit of about $1 million. We project net income, excluding the effect of expensing options, of about $2.6 million, which is 12 cents per diluted share. We expect to record option expenses of approximately 1.4 million dollars, which will result in net income of about 1.2 million dollars, or 6 cents per diluted share.

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

Boaz?

Boaz Raviv, Chief Executive Officer

Thank you for your report, Tsipi. Good morning and good afternoon everyone.

As Tsipi said, our revenues for the Third Quarter were $20.7 million, which is in line with our revised forecast, but below our original expectation. A bright spot in the quarter is that TBU revenues were above forecast and reached $6.3 million. We only reached breakeven in operating income. With the Financial income and a tax benefit, our earnings for the Third Quarter were seven cents per share. I will devote the rest of my comments to describing more fully what happened in the Third Quarter and what we are doing to get back on track.

As we reported on October 1st, our NBU revenues were below our original forecast due to lower than expected sales to the federal market and through our non-Cisco channels.

- Looking more closely at our federal sales, they totaled $900,000 in the Third Quarter versus the $2 million expected. Two deals, amounting to $800,000, slipped into the first week of October, so they will be recognized in the current Fourth Quarter along with additional federal sales we have won thus far.
- The shortfall in revenues from our non-Cisco channels primarily occurred in EMEA and APAC.

  I said on our last call that a major factor in the third quarter shortfall in our sales to non-Cisco channels was the fact that we had not yet introduced HD Continuous Presence. Our further analysis of the quarter confirms this view. While it is legitimate to argue that High Definition has not been implemented extensively in the marketplace, High Definition with Continuous Presence became a crucial decision factor for purchases of new systems in Q3. As I also discussed last time, that put us at a competitive disadvantage. The Codian MCU had this feature, our MCU did not, and we lost sales mainly through one of our important channel partners because of it, especially in EMEA.

At this point, it is difficult for us to assess how positive Tandberg’s acquisition of Codian will ultimately be for RADVISION. However, we do see an opportunity for us to win back some of the reseller market. Though we have always made our OEM relationships a first priority, we believe that there is room in the market for an independent network provider and we will refocus our efforts to re-engage some of the resellers.

We have now introduced version 5.5 of our SCOPIA platform that includes High Definition with Continuous Presence, as promised. It combines the advanced features that the market wants - and offers them at an attractive price. It also offers what no other comparable product can – SCOPIA Desktop, making it the complete unified communications network solution. SCOPIA V5.5 is a flexible platform that supports High Definition, Standard Definition, Desktop and 3G, with capacities optimized based on the video application. SCOPIA V5.5 utilizes unique shared encoder technology, which creates a dedicated pool of resources to process HD at very high quality and shares that pool with all the HD devices in the call. This allows us to provide very high HD quality, while keeping the price in the price range of Standard Definition MCUs. Other vendors use different techniques that provide a compromised level of HD support.

Turning to the rest of our NBU, our revenues in the third quarter through Cisco were in line with our expectations and essentially level with the 2007 second quarter. However, they were 30% below last year, when we had introduced the new SCOPIA platform and Cisco had made purchases for their internal use. Because SCOPIA 5.5 is a software upgrade, it will not drive internal purchases. In our second quarter call, I mentioned that we were involved in a number of development projects for Cisco, one of which was expected to begin during the fourth quarter. That project has been delayed. Therefore, our Cisco revenues are expected to remain at the same level for the fourth quarter. We believe that room conferencing and HD endpoint sales are driving market growth right now -- not network sales. Network sales will benefit more fully when Unified Communications is more broadly adopted and high definition endpoint prices drop.

Because Cisco is such an important channel partner to us, we have made them the priority in our market strategy, R&D efforts and investments. We will continue to focus on them. However, to drive our future growth, we are also going to take the next step of deepening our channel strategy. We have been successful in adding new OEM partners, but this is not sufficient. We must do more. For competitive reasons, I will not be very specific in discussing our plans, except to say that we are realigning our sales team in the Americas, expanding and prioritizing our reseller outreach worldwide, and reallocating resources to devote to this effort.

To complete my review of NBU, I will note that our Mobility and Application Service Provider revenues were $2.2 million in the third quarter, an increase of 34% from last year and in line with the second quarter of 2007.

While total revenues were within the normal bandwidth, sales of our Interactive Video Platform continued to grow and represented 60% of total mobile product line sales.

Systems integrators and developers are starting to diversify their investment and know-how and introducing additional applications for consumers and enterprises based on the same infrastructure. Last quarter, I mentioned that Cestel had developed security services with our IVP. We are now working with them to develop new video call center services based on it.

We are demonstrating several products based on the IVP this week at Fall Von, along with partners such as BEA and Clique. With Clique, we are jointly developing a new video telephony client application called MVT for mobile devices. MVT, combined with our Interactive Video Platform, can deliver end-to-end solutions to mobile operators who want to develop revenue-generating interactive video services, such as video communities, participation TV, mobile surveillance, and contact centers.

Turning to our TBU, we had better than expected revenues in the third quarter of 2007, as I said.

We continued to gain momentum in IMS in the quarter, with record sales of our SIP Developer Suite and our largest single deal ever with a leading wireless solutions provider. We also sold Diameter, the newest product in our IMS portfolio, to a major Telecom infrastructure vendor.

IMS is a growing and solidifying trend. Demand is increasing for mobile and fixed-line implementations. And, we are starting to see the cable market develop as well.

Last quarter we won an important project, proving the qualities of the SIP Server as a framework for IMS System Integrators through designing, developing and delivering a complex IMS SIP Server project for mission critical communication services to the U.S. federal market. We successfully delivered that project in Q3.

We are seeing an increasing number of opportunities for the SIP Server in complex cases in an IMS environment. In the third quarter, we won a major SIP server deal with one of the largest European Service Providers, based on its flexibility and performance.

The rapidly developing market for 3G in China is based on the TD-SCDMA standard. The number of companies outside of China developing TD-SCDMA handsets based on our 3G toolkit has increased substantially. We have now signed a strategic commercial agreement with TDIA, the most important organization in China for this domain, making RADVISION a preferred vendor to their China-based members.

That completes my review of operations.

In conclusion, the Third Quarter of 2007 was a quarter both of accomplishment and of disappointment for us. As our forecast for the Fourth Quarter shows, we do not expect to resume our growth trend in the short term. However, we are completely determined to do so. Given that the first quarter of 2008 will be a difficult comparison because of the DISA revenues we recognized in Q1 this year, we expect to return to a growth mode by the Second Half of 2008. Our priority now is to make the investments necessary in our core business, both in technology and in channels, to get back on track. Although it may take a few quarters to get there, we are fully confident that we will be successful.

That concludes my formal remarks. Thank you for your attention. Operator, we are now ready to take questions.