RADVISION
Fourth Quarter 2008 Conference Call
February 5, 2009

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 2008 results. With us from management are Boaz Raviv, Chief Executive Officer, and Adi Sfadia, 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 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.

With these formalities out of the way, 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.

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 by briefly reviewing our full year results. Revenues reached $84.7 million, 7.5 percent lower than 2007. The non-GAAP Gross profit was $66.4 million or 78.4 percent of revenue. We are reporting a full year non-GAAP operating loss of 9.6 million dollars and non-GAAP net loss of 5.9 million dollars or 29 cents per diluted share. This excludes option expenses, Auction Rates Securities write downs and restructuring expenses.

Let's turn to the results of the fourth quarter. Total fourth quarter revenues were $22.7 million, a 5.5 percent increase over the previous quarter, and a 2 percent increase over the fourth quarter of 2007.

Our Networking Business Unit had revenues of $17.4 million, 2 percent above Q4 2007 and a 1 percent increase over the previous quarter. Our Cisco sales were in line with our expectations. They were below the third quarter and at the same level as Q4 2007. Our room conferencing sales excluding Cisco grew 24 percent over the same quarter last year and 23 percent over Q3. Total NBU revenues for the year were $64.4 million, a 5.7 percent decrease over 2007. The decrease was mainly due lower 3G sales, compared to 2007.

Our TBU sales were $5.3 million, a 24 percent increase over Q3, and a 2 percent increase over the fourth quarter of 2007. Total TBU revenues for the year were $20.3 million, a 13 percent decrease from 2007. The decrease was mainly due to the level of Q3 revenues.

As for the geographic revenue mix, Americas represented 56 percent of revenues, EMEA 20 percent and APAC 24 percent. Looking at customer concentration, our top 10 customers generated about 56 percent of revenues vs. 69 percent in the third quarter. Cisco was once again the only customer exceeding 10 percent of the total revenues.

I would now like to discuss expenses in the fourth quarter of 2008. All numbers are Non-GAAP and exclude the effects of stock-based compensation and restructuring expenses. These effects can be found in the press release.

The Non-GAAP gross margin was 78.3 percent. Operating expenses were $18.9 million or 83 percent of revenues as opposed to 90 percent in the previous quarter. Sales and Marketing totaled $7.9 million, representing 35 percent of revenues. R&D was $9.2 million, or 40 percent of revenues. G&A was $1.8 million or 8 percent of revenues.

The fourth quarter Non-GAAP operating loss was $1.1 million, better than our forecast of $1.4 million. The Non-GAAP net loss for the quarter was $200,000 or 1 cent per diluted share. This was better than our forecast by $400,000 or 2 cents per diluted share.

The effect of stock based compensation was $1.2 million on the quarter's net income, or 6 cents per diluted share.

Looking now at our balance sheet. We ended the quarter with cash and equivalents of about $121 million, or $6.10 per basic share. This was a decrease of $300,000 from the previous quarter. This reflects the use of $2.6 million for the repurchase of about 420,000 shares and the use of about $700,000 for capital expenditures. This was offset by $3 million of cash flow provided from operations.

For the full year, we used cash flow of $9.5 million. This reflects the use of $11.1 million for the buy-back and $3 millions for capital expenditures. This was offset by $4.6 million provided from operations, including a $1.4 million loss from the Auction Rates Securities write-downs.

Inventory turns are 22 days. DSOs decreased to 57 days, compared to 60 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 75 percent of our total assets.

Before I turn to our guidelines for the first quarter of 2009, let me provide some necessary background. In line with our plan to return to profitability as soon as possible and following a year of increased OPEX investment, we have implemented cost saving initiatives. These are expected to significantly reduce OPEX compared to 2008. These initiatives include, among others, a workforce reduction, mainly in R&D, which we had increased in 2008. Boaz will discuss this further in his remarks. As we noted in today's earnings release, we recognized a restructuring charge of about $200,000 for the workforce reduction.

Turning to first quarter 2009 guidelines: We expect total revenue to be $19 million. Our gross margin is expected to remain high at approximately 78.1 percent and our operating expenses to decline by 20 percent, to about $15 million. As a result, we are forecasting a Non-GAAP operating loss of about $160,000.

We are also projecting that we will achieve Non-GAAP net income of about $300,000 dollars or two cents per diluted share.

We estimate option expenses at approximately $1.3 million and therefore a net loss on a GAAP basis of $1 million or five cents per diluted share.

We expect to return to operating profitability in the second quarter of 2009.

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

BOAZ RAVIV, CEO

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

As Adi said, our Fourth Quarter results were better than expected due to the on-target performance of our NBU and higher than forecasted revenues of our TBU. Our non-GAAP loss was reduced to just one cent in the Fourth Quarter, bringing us very close to our goal of returning to profitability.

Our Fourth Quarter progress follows a full year of executing our plan to resume profitable growth through accelerated investment in R&D and sales and marketing. As a result,

- We have re-established the competitive position of our technology with advancements in our SCOPIA platform, capped by our recent release of SCOPIA Desktop 5.7, with its industry-leading high definition video and clarity. In fact, RADVISION was recently named Company of the Year for Video-enabled Unified Communications by Telepresence and Videoconferencing Insight.
- We have deepened the role of our technology in the solutions of our Unified Communication partners including Cisco, IBM and Alcatel Lucent and with our endpoint partners LifeSize, AETHRA and Sony.
- And, we have capitalized on our position as the only independent network provider and endpoint-agnostic solution to expand our channel network.

With our product and market strategy back on track, I am pleased to report that we are now able to return to a more normal level of OPEX investment in 2009. As a result, we are forecasting our return to profitability in the First Quarter. Unfortunately, this required a workforce reduction that has now been completed.

It is important to note that the new level of OPEX spending in 2009 includes continued investment in our solutions, continued support of our partners and continued support of channel expansion. Fortunately, we completed the "heavy investing" in these initiatives in 2008.

Given the current economic uncertainty, our timing seems both appropriate and prudent. However, the economic headwinds may also offer distinctive opportunities for RADVISION because of the price/value advantage of our products as well as the fact that videoconferencing is a proven solution for reducing costs and improving efficiency, which are increasingly mission critical for enterprises and institutions everywhere.

Now I will turn to my review of our quarterly results, beginning with our Networking Business Unit.

Our Fourth Quarter NBU revenues rose above the 17 million dollar mark for the second quarter in a row, with an increase of one percent from the Third Quarter and two percent year-over-year, as expected. They included strong revenues from Cisco, balanced with very strong growth in our non-Cisco sales, which rose 24 percent from the fourth quarter of 2007 and reached the highest percentage of total NBU revenues in five years.

Our sales to Cisco showed particular strength in the healthcare, education, and state and local government verticals. Teaching hospitals are increasingly awakening to video. I briefly referenced one of them on the last call. We won a very significant project for a major teaching hospital, which is using our complete solution for applications ranging from remote consultations to operating room viewing.

As Adi noted, our Cisco revenues were lower than in the Third Quarter, which included their purchase of inventory for our new solution for Meeting Place. Shipments of Meeting Place 7.0 began in late September. One early success included the sale of Meeting Place and MCUs to a state government in the U.S. Midwest.

As I discussed last time, the solution we created for Meeting Place was a major initiative in our larger product development effort in support of Cisco that continues today. To create the Meeting Place solution, we added extensive and scalable audio capabilities to our SCOPIA platform. This enables Cisco to unify voice and video conferencing for Meeting Place onto a single media server now based on SCOPIA.

We have been working on another project for Cisco's Next Generation solution and hope to be able to announce it soon.

As you know, we have also focused our R&D investment on our two other important partners in the Unified Communication space, IBM and Alcatel Lucent. We recently introduced a unique solution for IBM's Lotus Sametime. We created a RADVISION plug-in to bring high definition desktop videoconferencing to Sametime's instant messaging and web conferencing. It includes the capability to extend those sessions to HD room systems, videophones and 3G mobile devices. We successfully demoed this product at Lotusphere last month and are already seeing good traction with it in Europe.

We are also reaping the benefits of our past investment in Alcatel Lucent and their My Teamwork solution, with very visible and continued progress in the Fourth Quarter. We won an internal Unified Communications project for the largest distribution organization in Italy. The first phase is for deployment of 200 video ports. With 60,000 seats, there is potential for the total project to reach 6,000 ports. This is just one of several customers that we have won together with Alcatel Lucent in Europe, where our marketing efforts have become well integrated. RADVISION is the preferred technology for the Alcatel Lucent solution.

The success of High Definition continues to drive endpoint demand and we achieved strong results with our OEM endpoint partners in the Fourth Quarter. LifeSize is continuing its market success, increasing its market share and pursuing a price/value philosophy that is similar to ours. We are working closely to deepen our relationship with them. Our Fourth Quarter sales were nearly double those of the Fourth Quarter last year, but below the Third Quarter. Our sales through LifeSize in the latest quarter were to all regions of the world. Our Fourth Quarter sales through AETHRA were also lower than the Third Quarter, which was expected, but they remain among our top five customers after Cisco. We reached an important milestone with SONY in November with the announcement of our strategic reselling agreement for one of their major regions in APAC. Under the agreement, we are providing the full range of our infrastructure products for SONY's video conferencing solutions. We are working to add additional important SONY regions in APAC in the future.

Looking more closely at our NBU by geographic region:

Asia Pacific had a very strong quarter, with NBU revenues up 33 percent from Q4 and 82 percent sequentially. Record performance in China was a major contributor to that progress. We are benefiting from expanding our channel network with another Tier 1 partner, and China's huge infrastructure investment program, which will drive videoconferencing demand. We had another good quarter in Australia and recognized additional revenues from the Service Provider I mentioned last time. This customer's infrastructure is based on our technology and they are in the process of upgrading their network to HD through RADVISION. The addition of two Service Provider customers in Southeast Asia in the Fourth Quarter contributed to strong sales in that region. Throughout APAC, SCOPIA Desktop is being increasingly recognized as a cost-effective solution. We won an important project with a government office in Korea that is deploying SCOPIA Desktop for internal integration and collaboration because of its exceptional High Definition capability.

In EMEA, our Fourth Quarter NBU revenues were better than expected and reached their highest level of 2008. They rose 25% sequentially and 2% year-over-year. Our success with Alcatel Lucent in Italy in the Fourth Quarter contributed to our growth. We continue to invest in this relationship and just completed a marketing roadshow with Alcatel Lucent resellers in Germany last week. Our relationship with IBM in Europe also continues to deepen. IBM has a very strong position in the financial market vertical. We closed a deal together in the Fourth Quarter with a major bank in France. The customer viewed the addition of video to their existing IBM technology as a way to use Unified Communications to become more competitive while reducing costs. We won a similar deal in Italy. Separately, we had two additional successful tenders in the financial vertical through local partners in France and the Benelux region.

AETHRA, LifeSize and Sony also made strong contributions to our quarterly results in EMEA. On the last call, I mentioned that a Service Provider in Russia chose our platform to deliver hosted services based on SCOPIA Desktop. We won another deal in Russia in Q4 with one of the largest Russian Government offices. It includes a sizeable order for our MCUs. Because it will initially be hosted by one of the largest Russian carriers, this may create more opportunities for us. We started projects with major Service Providers in Italy and France in the Fourth Quarter for hosting services. This trend is being accelerated by the current economic environment. Service Providers are moving quickly to offer this cost-saving way to enable enterprises to pay per-user for videoconferencing services when they are not able to make the investment in their internal video capabilities.

While the majority of our revenues in EMEA came from the enterprise market in the Fourth Quarter, we also recorded 3G sales. Even though we have fully shifted our research and marketing investment to the enterprise market, our gateway remains the standard in 3G. When emerging markets launch 3G today, we continue to reap the benefit. That was the case in St. Petersburg in the Fourth Quarter, where we partnered with HP on one of the first implementations of 3G in the region.

In the Americas, our non-Cisco revenues in the Fourth Quarter matched the level achieved in the Third Quarter and approximated the Fourth Quarter last year. This was achieved despite lower Federal sales sequentially and year-over-year. Our growth in non-Federal sales reflects our continued progress in building the RADVISION brand. Our "Try SCOPIA" campaign is proving to be highly successful both in generating a substantial number of leads as well as in significantly reducing our own travel costs. We continued to expand our Americas sales team in the Fourth Quarter, adding a highly experienced channel manager. The strategic realignment of our sales group early in 2008 is producing positive results. Some sales managers are now assigned to separate markets, with one team dedicated exclusively to the support of Cisco.

Our Technology Business Unit made a very strong recovery in the Fourth Quarter, with revenues 7 percent above plan and 24 percent higher than the Third Quarter. The Third Quarter was hurt in part by the timing of revenue recognition for several deals and longer sales cycles. We are pleased with the improvement in the Fourth Quarter, yet our forecast for the First Quarter shows that it will be another quarter before TBU is back on track.

We will continue to execute our product development roadmap and enhance our IMS offerings in 2009. As part of our product strategy to “move up in the food chain”, we will introduce new technology that will include media capabilities and advanced hardware design to deliver a full solution to our customer base. Selling this solution may take a longer sales cycle, but the average price and expected royalty stream will be much higher.

A closer look at our results in the Fourth Quarter shows the initial benefits from our new approach. For example, TBU had the strongest bookings for the Fourth Quarter in three years, with a record number of design wins. Our TBU revenues in APAC also reached a record level in Q4. APAC is the first region in which we implemented our plan. We had three major wins there in the quarter. These included a major deal for TBU’s SIP Server technology. We also completed a long-term, strategic project with a leading communication equipment vendor in China developing an advanced Video Phone for global markets. We had our first sale to a leading Service Provider in China for our testing suite solution. In EMEA, we had another TBU deal approaching 1 million dollars for our software protocols and Client technology. TBU in the Americas met their targets in the Fourth Quarter broadly across all products, contributing to the record number of design wins in the quarter.

In Conclusion,

In 2008, we began a strategic plan to reassert our technology leadership, strengthen our partner relationships, expand our channel network and return to profitable growth. That required accelerated investment in R&D and in sales and marketing, which led to quarterly losses as we expected. Those losses began to decline in the second half of the year, along with a rebuilding of our revenues. Our net loss narrowed to one cent in the 2008 Fourth Quarter, as we reported today.

Our work is not finished, but we are ready to begin the next phase of our strategic plan based on the progress we achieved in 2008. That progress enables us to return to our normal OPEX investment and profitability.

While we are mindful of the challenges posed by current economic conditions, we are focused on finding the opportunities that exist in every market for video solutions to reduce costs and increase efficiency. We also believe that the RADVISION solution has a distinctive advantage right now because it immediately enables enterprises at a relatively low cost to build upon their existing technology infrastructure. This allows them to capture the benefits of Unified Communications, while dramatically improving the ROI of their original investments.

Another trend also benefits RADVISION – video demand is continuing to evolve beyond the room-based solution or endpoint decision. It is shifting to a complete Unified Communications solution, where the network plays a crucial role. This is another distinctive advantage for RADVISION as the only independent network provider, making us a good partner to IT vendors, service providers, and endpoint manufacturers.

We will continue to invest in our technology, our partners and our channels as we execute our strategy to achieve and sustain profitable growth.

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