

RADVISION
Third Quarter 2010 Conference Call
October 28, 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 Third Quarter 2010 results and Third Quarter Outlook 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 press 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 our third quarter conference call.

Allow me to remind you that we are posting a power point presentation on our website with all the figures that I will present today. Let's turn to the results of the third quarter of 2010.

Total revenues were \$24.5 million, which was \$500,000 higher than forecast. This was 20% above the same quarter of last year, and 5% above the previous quarter.

Our Video Business Unit, formerly Networking Business Unit, includes infrastructure and endpoint products. Revenues from VBU were \$20.7 million. This was 32% above the same quarter last year and 8% above the previous quarter.

Our infrastructure revenues were \$16.4 million, 5% above the same quarter last year, and 4% lower than the Second Quarter this year. This includes a decrease in Cisco revenues by 22% and an increase in other infrastructure revenues by 18%, compared to the previous quarter.

Our End Point revenues were about \$4.3 million, nearly twice the level of the Second Quarter. The End Point revenues included a full quarter of sales of the SCOPIA XT1000, which is based on the technology assets we acquired from Aethra. That acquisition became accretive in the Third Quarter, which is one quarter earlier than we expected.

Our TBU had revenues of \$3.9 million, slightly lower than forecasted.

As for the geographic revenue mix, Americas represented 52% of revenues, EMEA 22% and APAC 26%. Looking at customer concentration, our top ten customers generated 54% of revenues, versus 62% in the previous quarter. Cisco was once again the only customer above 10 percent of revenues.

I will now move to expenses in the third quarter of 2010. All numbers that I will discuss are non-GAAP and exclude the effect of stock-based compensation as well as amortization of intangible assets related to the Aethra acquisition. These effects can be found in the press release.

The Gross margin for the third quarter was 72.3%, 1.7% above our forecast. This was better than expected due to different revenue mix than anticipated. Operating expenses for the third quarter were \$16.1 million, \$300,000 lower than our forecast. Third quarter sales and marketing expenses were \$7.2 million, or 29% of revenues. R&D was \$7.5 million, or 30% of revenues, and G&A was \$1.4 million, or 6% of revenues.

The third quarter non-GAAP operating profit was \$1.6 million, which was \$1.1 million above our forecast. Non-GAAP net income was \$1.6 million, or 8 cents per diluted share, which was 6 cents better than our forecast.

The effect of stock based compensation was \$600,000, or 3 cents per diluted share. During the quarter, we recorded amortization of acquired intangibles of about \$500,000, or 3 cents per diluted share. In addition, we recorded an additional write-down of auction rate securities of about \$220,000. GAAP net income including stock based compensation, amortization of acquired intangibles, and auction rate security write-downs, was \$300,000, or 2 cents per diluted share.

Looking now at our balance sheet, we ended the quarter with cash and cash equivalents of approximately \$115 million, or \$5.99 per basic share. This was a decrease of \$6.8 million from the previous quarter. This reflects the use of \$7.1 million for the self-tender offer and \$700,000 for CAPEX. This was offset by \$1 million generated from operations. Inventory turns are 30 days and DSOs are 44 days.

The rest of the balance sheet remains very strong as well. We have no debt and our cash and equivalents, including long-term investments, represent 71% of our total assets.

Turning to fourth quarter 2010 guidelines, we expect total revenues to be \$26 million, which represents a 6% increase over the third quarter. This takes into account lower Cisco revenues, which are expected to be about 25% of total revenues. This is in line with the progressive decline previously forecasted.

Our gross margin is expected to decrease to approximately 71.5%, reflecting an increased portion of endpoint sales in our revenue mix. OPEX is expected to be \$16.1 million.

As a result, we are forecasting a non-GAAP operating profit of about \$2.5 million. We project a non-GAAP net profit, excluding the effect of option expenses and the amortization of purchased intangibles, of about \$2.2 million, which is 12 cents per diluted share. This compares with a net profit of \$4.4 million, or 23 cents per diluted share, in the same quarter of last year. We estimate option expenses at approximately \$600,000 and amortization of purchased intangibles of about \$500,000. As a result, we forecast net profit on a GAAP basis of \$1.2 million, or 6 cents per diluted share.

BOAZ RAVIV, CEO

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

As Adi said, our Third Quarter revenues of \$24.5 million were ahead of forecast due to the better than expected results of our Video Business Unit or "VBU," formerly our Networking Business Unit.

The new name reflects the transformation that is underway, as our VBU moves from its exclusive focus on network infrastructure and its substantial dependence on one OEM partner, and becomes an end-to-end video solutions provider with a global and diverse channel network.

A closer look at our VBU revenues alone, shows our progress in that transformation over the past year. In the Third Quarter of 2009, we had no endpoint revenues and Cisco represented 60% of total VBU revenues. In the Third Quarter of 2010, 21% of VBU revenues were derived from endpoints while Cisco accounted for just 36% of the VBU total.

Importantly, despite a 21% decrease in Cisco revenues compared with Q3 of 2009, our total VBU revenues rose 32% year over year, and included a 43% increase in RADVISION-branded infrastructure sales.

In total, Q3 endpoint revenues were double those of Q2, as we benefited from the first full quarter of sales of our SCOPIA XT1000. When added to sales of the SCOPIA VC240, our total endpoint revenues were \$4.3 million for the Third Quarter of 2010 and nearly \$7.5 million year to date, in line with our projection. We expect endpoint revenues to continue to ramp-up in the Fourth Quarter.

We are continuing to enhance and expand our offerings in the SCOPIA XT family. Our Fourth Quarter endpoint sales will include the SCOPIA XT1000 SMB, which began shipping this month. This version of our XT1000 room system was specially designed for Small and Medium-sized businesses. It is the simplest and most affordable solution on the market today. This new version combines the capabilities of the XT1000 room system with SCOPIA Desktop software to fully extend the SCOPIA XT1000 experience to users anywhere on their Macs or PCs allowing small and medium businesses to communicate beyond their typical business boundaries.

Another unique feature we offer for the XT1000 is SCOPIA Control, the first Apple iPad application for controlling video conferencing room systems.

We also continue to advance our VC240 by adding more functionality to the product. In the Third Quarter, we added new features, including enhanced interoperability, additional support for packet loss concealment and audio enhancements. We plan to introduce additional advancements in Q4.

We are continuing to see substantial standalone growth in our SCOPIA infrastructure solution, as our Third Quarter results show. This is due to the synergy between our endpoints and infrastructure, which has driven new end-to-end solution sales. To advance our competitive position further, we have now begun shipping Version 7.5 of our SCOPIA solution. Among its features are:

- A new Telepresence Interoperability feature enabling the SCOPIA Elite MCU to establish connections with telepresence systems from Cisco, Logitech, Polycom and Tandberg, allowing telepresence users to view all meeting participants in a multi-party call, including those on traditional video conferencing systems or telepresence systems from other vendors. With SCOPIA Elite's breakthrough interoperability technology, Telepresence users no longer have to be stranded in their closed solutions.
- SCOPIA 7.5 also offers advanced data collaboration that enables interoperability with the Apple iPad and iPhone. With this capability, materials such as presentations, spreadsheets, documents and images shared in a video conference can be easily viewed on Apple mobile devices. It also provides the ability to review previously shared data. This review capability will also be available in both our SCOPIA Desktop and SCOPIA Mobile product lines.

The important traction we are gaining in endpoints, supported by the competitive strength of our SCOPIA Elite platform and SCOPIA Desktop, drove the performance of our VBU in the Third Quarter. Their combination is enabling us to further expand our partner channels worldwide.

I will begin my review of regional VBU highlights with APAC, which achieved record revenues in the Third Quarter. VBU revenues were more than double those of Q3 2009 and up over 55% sequentially. The endpoint launch in APAC has been highly successful, with endpoints sold in all territories in the

Third Quarter, including very large projects in China, especially in the legal sector, and in Thailand, in education. In Japan, we added a prestigious channel and we had a very strong quarter, both in endpoint and infrastructure sales. Korea was also strong in both categories. We saw an expansion of a project with a major industrial customer, among others. We also had a large deal with a major Systems Integrator in Southeast Asia.

Our VBU revenues in EMEA also increased substantially over the Third Quarter of 2009 as well as being higher sequentially. Even though our distribution channels in EMEA are established, we also added new partners in the region in the third quarter. These included a reseller channel in Scandinavia and a large Italian audio-visual distributor. We also won two joint tenders in Italy – one for endpoints and the other for infrastructure. The endpoint tender was achieved in conjunction with a major Service Provider, which had been an important Aethra customer. As for the infrastructure tender, our SCOPIA Elite was selected by another Service Provider, which is our long-standing customer, to provide Telepresence connectivity with their unified communication software and standard video room systems.

We made further progress in the U.K. in the Third Quarter. Our new partner Midwich launched a recruitment and business partner program into their network of resellers. This was accompanied by orders from Midwich for both the VC240 and XT1000. A large U.K. medical professional organization chose the SCOPIA Elite to replace a competitor's solution and they are now testing the XT1000. The VC240 was chosen for its price and performance by a building products supplier for internal management and sales force communications. We continued to benefit from our relationship with Alcatel Lucent and our solution for My Teamwork in the Third Quarter. One of the main telecom providers in Europe is using our solution in their showroom to demo their unified communication products. In Russia, a new government customer purchased our infrastructure products in the Third Quarter, while an insurance company expanded their order for the XT1000.

Our VBU revenues in the Americas, before including Cisco, also demonstrated very strong growth both over the Third Quarter last year and sequentially. Our successes in the Americas extended across vertical markets including healthcare, education and local government.

Building our channel in North America and consolidating recent successes is an important priority. We also added our first nationwide distributor in Canada, DataVisual, while HD Distributing became our fastest growing partner in the U.S. A major healthcare system in the Midwestern U.S. chose SCOPIA Elite and SCOPIA Desktop over a competitor's solution for inter-hospital communications. Among our competitive government wins, a county government in the U.S., chose SCOPIA Elite and Desktop for its integration with IBM Sametime.

We have made important progress in CALA, both with existing partners such as SEAL in Brazil, which immediately embraced our new end-to-end solution, as well as in attracting new partners, including former Aethra resellers, to our channel. Our success was recently recognized by Frost & Sullivan, which awarded us their 2010 Latin America Competitive Strategy Leadership Award. We had a major deal for our XT1000 with the Health Institute of Chiapas, Mexico, to deliver telemedicine services to rural communities. We won this competitive bid through a new partner and former Aethra channel. We won another competitive bid through that partner for the XT 1000 with a major university in Mexico, UAEM. Now that we are an end-to-end video solutions provider with channels increasingly adopting our solution, we have taken a next step in building a framework for customer support. We recently introduced our Eye-to-Eye Partner Program, which offers partner certification, technology training and support, and pricing incentives. The Eye-to-Eye Program is a more comprehensive way to manage our partner network as well as a demonstration of our strong commitment to our partners. We are beginning the rollout of this program worldwide.

The consolidation of videoconferencing market continues to open opportunities to RADVISION with Unified Communication players.

On October 11th, we announced a major new agreement with Microsoft. The announcement was highlighted by Warren Barkley, General Manager of the Lync Partner and Customer Group at Microsoft. With this agreement, RADVISION will develop a powerful combination of hardware and software solutions integrated with Microsoft Lync, which will be offered through joint marketing and sales initiatives. This new product will provide advanced connectivity between the Microsoft unified communications platform and standards-based video conferencing solutions, thereby extending the video capabilities of Lync throughout the enterprise. Additional details about the solution will be announced when we introduce it together with the launch of Microsoft Lync.

Our partnership with IBM continues to be productive. In the Third Quarter, we worked together with IBM in Europe to bring video communications to a major cruise ship company to enable their HQ office to communicate to their fleet of 19 ships using our SCOPIA Elite infrastructure, combined with our SVC technology, over satellite link. Our new SCOPIA 7.5 supports the latest version of Lotus Sametime.

Turning to our Technology Business Unit, the Third Quarter was solid. Before I provide specific highlights in the Quarter, it is important to note the evolution that has taken place in the scope of our TBU's portfolio over the past few years – starting from protocol stacks, then to complete protocol suites, and most recently to our Multi-Media Client Frameworks. Today, our BEE family of client framework solutions gives developers a Do-It-Yourself package for adding video communication capabilities into the range of unified communications endpoints.

The BEEHD family of products includes three main variations: BEEHD for Desktops, for Personal Devices, and for Enterprises. Across our product portfolio, we are seeing strong demand for video solutions, in addition to ongoing demand for our traditional products. In the Third Quarter, we had major deals for BEEHD and ProLab in every region.

In summary,

We made measurable progress in the Third Quarter in our transformation to an end-to-end video solution provider with a diverse channel network.

- That progress can be seen in the revenue growth of our VBU in the mix of those sales and in their increasing geographic balance.
- Our reseller channel strategy is gaining traction, with existing partner relationships strengthening and new partners added in all regions, and we have introduced a comprehensive program to advance our partner support.
- We are also advancing our VBU technology to increase our competitive strength and to take advantage of opportunities with Unified Communications players in a quickly changing marketplace.
- We are using the development power of our TBU to enable and expand the market for video.

While our Third Quarter progress was strong and our profitability was better than expected, we are fully focused on accelerating the penetration of our end-to-end solution and growing our revenues along with our channels and partners. The opportunity today is greater than it has ever been.

We are executing our strategy to capitalize on that opportunity. As we have done in the past, we plan to move quickly.