RADVISION
Third Quarter 2009 Conference Call
October 29, 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 Third Quarter 2009 results and Fourth 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 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 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. Total revenues were $20.4 million, which is $400,000 higher than our forecast.

Our Networking Business Unit had revenues of $15.6 million, which is $600,000 higher than forecast. This was 9.6% lower than the third quarter of 2008 but 4.1% higher than the previous quarter. Our Technology Business Unit had revenues of $4.8 million. This is slightly lower than forecast, but 12.3% above Q3 2008 and 5.2% above the previous quarter.

As for the geographic revenue mix, Americas represented 67% of revenues, EMEA 13% and APAC 20%. Looking at customer concentration, our top ten customers generated 70% of revenues versus 69% in the previous quarter.

I will now move to expenses in the third quarter of 2009. All numbers that I will discuss are non-GAAP and exclude the effect of stock based compensation. Numbers including the effect of stock based compensation are presented in the press release.

Gross margin for the third quarter was 79.3%, which is above our forecast and mainly due to different revenue mix. Operating expenses this quarter were $13.8 million. This represents a 29% OPEX reduction, year over year.

Third quarter sales and marketing expenses totaled $6.3 million, or 31% of revenues. R&D was also $6.3 million, or 31% of revenues, and G&A was $1.1 million, or 6% of revenues.

Third quarter non-GAAP operating income was $2.5 million, which is $800,000 above our forecast. Non-GAAP net income was $2.5 million, or $0.13 per diluted share, $0.04 better than our forecast. Non-GAAP net income excludes the effect of option expenses of $1 million, or $0.05 per diluted share, and an auction rate securities write down of $300,000, or $0.02 per diluted share.

As a result, GAAP net income including option expenses and auction rate securities write-down, was $1.2 million or $0.06 per diluted share.

Looking now at our balance sheet, we ended the quarter with cash and cash equivalents of approximately $120 million or $6.17 per basic share. This was an increase of $1.8 million from the previous quarter. This reflects $2.5 million from operations offset by $700,000 used for CAPEX. There were no share repurchases this quarter. Inventory turns are 31 days and DSOs are 56 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 74% of our total assets.

Turning to fourth quarter 2009 guidelines, we expect total revenues to be approximately $21.5 million, which represents a 5% increase over the third quarter. Boaz will discuss the outlook for Cisco revenues in his comments.

Our gross margin is expected to remain high at approximately 79%. OPEX is expected to be about $13.6 million, which is slightly below the third quarter of 2009 and 28% lower compared to Q4 last year.

As a result, we are forecasting that operating income will increase to about $3.4 million. We project non-GAAP net profit, excluding the effect of option expenses, of about $3.3 million, which is $0.17 per diluted share. This is in comparison with a net loss of $200,000 dollars or $0.01 per diluted share in the same quarter of last year. We estimate option expenses at approximately $1 million or $0.05 cents per diluted share. As a result, we are forecasting net income on a GAAP basis of $2.3 million, or $0.12 cents per diluted share.

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 reported, we delivered better than expected revenues and very strong profits for the Third Quarter of 2009. Before I review the Quarter, let me begin with the larger issue of Cisco's decision to acquire Tandberg and the effect we expect it to have on RADVISION. As you know, our partnership with Cisco has been a long and productive one. They represented 39% of our total revenues in 2008 and slightly more than 40% year-to-date in 2009. Their contribution to the Third Quarter was in line with that level, mainly because of their accelerated adoption of our new SCOPIA Elite platform in the Quarter.

No company wants to face losing such an important customer. Frankly, no company wants to have such a single large customer either. That is why we have pursued a parallel strategy to expand our OEM and reseller relationships while actively supporting Cisco. We accelerated that effort two years ago. Today, our channel network includes IBM, LifeSize, Alcatel Lucent, and Huawei; we have established an important new relationship with Samsung; and, we have added dozens of new resellers in every region over the past two years. Because of the market dynamics created by Cisco's decision to acquire Tandberg, we expect to add new Unified Communications players and new resellers to this list while gaining more opportunities with our existing partners. Expanding and deepening our network relationships is an essential part of our go-forward strategy.

We do not expect our Cisco revenues to disappear overnight. In fact, based on our discussions with Cisco to date, we expect our Cisco revenues in the Fourth Quarter of 2009 to approach the level they reached in the Third Quarter. In quarters beyond that, many factors can influence our Cisco sales. These include when the Tandberg transaction closes, the length of the development cycles to replace our technology, and the effect of the change on customer decision-making. What we do know, is that under tender offer regulations, Cisco and Tandberg are not permitted to work together before the transaction is closed. Therefore, Cisco's videoconferencing sales and support activities, until that happens, will continue to be based on RADVISION technology. Longer term, Cisco will have to evaluate each of the portfolio solutions that use RADVISION technology and decide if and when to replace it with Tandberg technology. We recognize that though we are deeply embedded in many of Cisco's videoconferencing solutions and that they may remain a large customer through and perhaps beyond 2010, we must be prudent and assume that our Cisco sales will step down progressively through 2010. We plan to provide quarterly updates on our outlook for Cisco going forward. We have valued our partnership with Cisco, but now we are fully focused on building our future beyond Cisco. We are completely confident in our ability to do so.

The Cisco-Tandberg announcement has moved videoconferencing to the forefront in the market conversation about collaboration and Unified Communications. In fact, John Chambers said that Cisco plans to focus on videoconferencing as their competitive differentiator. That statement underscores the important opportunity we plan to seize for RADVISION with other Unified Communications players.

While it has had strong rewards, our relationship with Cisco has also been a limiting factor with our other partners. They, like many of you, wondered if Cisco would buy RADVISION, and they restricted their dependence on our technology to reduce their risk and exposure if Cisco came to own it. We have seen doors open wider to us since Cisco's announcement and we hope to have new opportunities to report in the near future.

Fortunately, we are facing these significant challenges and opportunities following two years of accelerated R&D investment, which has yielded a newly refreshed product portfolio and a highly regarded next generation MCU. In fact, our SCOPIA Elite was so well received by Cisco that it was certified and adopted by all business units ahead of schedule, which led to the strong revenues from Cisco in the Third Quarter. In addition, RADVISION-brand SCOPIA Elites are selling well in all markets. We expect to complete certification of the full SCOPIA Elite portfolio with all our partners in the Fourth Quarter.

We are also seeing continued high levels of excitement and interest surrounding the VC240, our all-in-one high definition video desktop device that we co-developed with Samsung and introduced in June at InfoComm. By way of update, we are on schedule with our work of integrating our Scalable Video Coding (SVC) technology into the product. We have completed details of our agreement with Samsung, enlarging our exclusive rights to worldwide sales. We have also finalized our go-to-market strategy and will be working closely with Samsung subsidiaries to reach the B2B market. We expect the VC240 to be released before the end of the year and that it will be a major revenue generator in 2010.

In addition, the combination of the VC240 and our desktop solutions opens up a larger range of opportunities for us with Unified Communications partners.

Our technology advancement in desktop solutions has continued.

- On October 6th, at IP Convergence in Paris, we unveiled our High Definition SCOPIA Desktop video conferencing client for Apple's Mac platform, which gives Mac users full interoperability with standards-based telepresence and High Definition videoconferencing room systems and other PC desktop clients. Extending the SCOPIA desktop conferencing solution to the Mac platform gives our customers more opportunities to allow desktop and mobile users to communicate through High Definition video. At the same time, it expands the opportunity for RADVISION in the education, media and graphic design vertical markets that have a higher portion of Mac users.
- And, last week, we announced that the latest version of SCOPIA Desktop 7 has been fully optimized with Microsoft Windows 7 and the latest Intel technologies, including the new high performance Intel Core i7 and Intel Atom processors. This optimization provides our customers with the highest quality video and most efficient use of PC resources available and extends video conferencing to a much broader range of installed PCs in the market. RADVISION is both a Microsoft Gold Certified Partner and an Intel Software Partner Program member. We plan to focus further on these partnerships in the future.

Let me turn now to my full review of Third Quarter results for our Networking Business Unit. Our NBU revenues were 4% better than expected as well as 4% ahead of the Second Quarter. In addition to strong Cisco sales, our non-Cisco sales rose 3% sequentially. Our true growth in non-Cisco sales was masked by the fact that we had to overcome the loss of revenues in the Quarter from our OEM partner AETHRA because of their financial issues.

Offsetting this, were strong sales to LifeSize, which more than doubled from the Third Quarter last year and rose 40% sequentially. As I mentioned on the last call, we extended our OEM agreement with LifeSize to include the SCOPIA Elite technology in their product line.

Turning to IBM, we received a significant follow-on order for the Italian Bank installation that I have referenced in past calls and there are additional projects in process including several in APAC resulting from our new relationship with IBM Global Services in Japan. We are also working very closely with the IBM Sametime group to release an end-to- end solution with Sametime 8.5.

We are continuing to work closely with Alcatel Lucent, our largest new reseller, both in our joint marketing effort as well as in certifying SCOPIA Elite for addition to their product line. We have held partner events to introduce SCOPIA Elite and the VC240. We are working with Alcatel Lucent partners that are starting to promote Unified Communications to their customers. Also, we have completed delivery and training for collaborations services for hospitals in Spain.

The success of the SCOPIA Elite and the enthusiasm for the VC240 enabled us to continue to expand our reseller network in the Third Quarter. Among the additions were four new distributors in North America, including a major systems integrator and reseller with offices from coast to coast. We also have added new channels throughout EMEA, including the Nordic region, Turkey, Germany and Africa.

In addition to aiding our reseller network expansion, the success of the SCOPIA Elite contributed to important wins in EMEA and APAC in the Third Quarter. In EMEA, the Elite has generated strong interest among government agencies, including those in healthcare and education. Among our wins were government agencies in Spain and France. One of our major service provider customers has also adopted the Elite. In the Nordic region, three resellers have started offering hosted services based on the Elite. We saw continued sales of the Elite in APAC in the Third Quarter, including a major deal in the Power sector and further sales of the Elite in China, where we also had additional 3G sales. This contributed to a good quarter in APAC overall as did strong sales in Japan.

Turning to our Technology Business Unit, our TBU revenues, although slightly below forecast, increased 12% from the Third Quarter of 2008 and rose 5% sequentially. This included additional revenue from a complex server project that we have underway in APAC for a large PBX vendor. We delivered an additional milestone in Q3.

As I mentioned earlier, our TBU is working with Samsung to integrate our SVC technology into the VC240, thus enabling High Definition video calls over unmanaged networks, including the public Internet.

We continue to see market demand from companies looking to enter the video communications market by transforming their existing products through highly integrated video solutions. Several deals in the Third Quarter serve as examples of how we are extending our market solution beyond standard applications to provide complete solutions supporting new video-based developments. In Europe, we had a new win with a customer who is adopting our advanced signaling technology to develop an end-to-end video solution. In the U.S., we won a turn-key project adding video support to the product portfolio of a leading VoIP vendor that is already using our products for voice technology. In APAC, we are seeing growing need for video-related application development with two major wins for our video server technology.

Licensing the different TBU product lines helps us to continue our strategy of commoditizing and democratizing video conferencing. We expect more manufacturers to release video client products, based on our advanced technology, that are fully integrated and interoperable with RADVISION's powerful infrastructure.

In conclusion, for the past two years, we have systematically executed our stated plan to re-establish our technology leadership and return to profitability. Our success in this regard is evident in our Third Quarter performance. Now we face the significant new challenge of the loss of our largest customer. We intend to overcome this challenge and become even stronger because of it. Our plan is straightforward and its implementation is underway:

- We will deepen and broaden our OEM partnerships and reseller network by capitalizing on the strength and advantages of our exciting technology portfolio, as well as on the marketplace disruption caused by the Cisco-Tandberg deal.
- We will also continue to invest in our technology, as well as in our marketing and sales power, to support this effort.

In other words, we will continue to execute on our current strategy to replace lost Cisco revenues and to forge our future profitability and growth. There is no doubt that 2010 will be a challenging year. While we hope to remain profitable each quarter, we will have to wait in order to understand the scope of the challenges and opportunities that will emerge. We will adjust course as needed, while remaining focused on our long-term plan. It may come as a surprise to you, that morale at RADVISION is at a very high level. Our employees are ready, even eager, to tackle this new challenge. I look forward to updating you on our progress next quarter. I am fully confident that we will continue to deliver on our plan.