

RADVISION
Third Quarter 2011 Conference Call
October 27, 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 Third Quarter results and Fourth Quarter Outlook. With us from management are Boaz Raviv, Chief Executive Officer, and Adi Sfadia, Chief Financial Officer. Bob Romano is not able to join us today. 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 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 turn to the results of the third quarter of 2011.

Total third quarter revenues were \$17.3 million, within the range of our revised forecast. This was below the original forecast of \$19 million, mainly due to lower than expected VBU sales.

Our VBU revenues, which include both infrastructure and endpoint business, were \$13.4 million compared to \$20.7 million in the same quarter of last year, which included \$7.4 million from Cisco. Excluding Cisco in both periods, our VBU revenues were 8 percent below the same quarter of last year and 4 percent below the previous quarter. Our End Point sales were about \$4.3 million, which is level with the third quarter last year and 6 percent lower than the previous quarter.

Our Technology Business Unit revenues were \$3.9 million, which is also level with the third quarter of 2010 but 10 percent higher than the previous quarter.

Moving to geographic revenue mix, Americas represented 36 percent of revenues, EMEA was 33 percent and APAC was 31 percent of revenues. Looking at customer concentration, our top 10 customers generated about 33 percent of revenues vs. 38 percent in the previous quarter. Our sales to Cisco, which also include TBU revenues, were below 10 percent of our total revenues.

I would like now to discuss expenses in the third quarter of 2011. All the numbers I'm going to discuss are Non GAAP and exclude the effects of stock-based compensation and amortization of purchased intangibles. These effects also can be found in the press release.

The Non GAAP Gross margin was 69 percent, which was slightly below the original forecast, mainly due to the lower level of revenues.

Operating expenses were \$17.7 million, which is lower than our original guidelines. OPEX was about 102 percent of revenues, compared to 66 percent in the same quarter last year, and 100 percent in the previous quarter. As mentioned previously, we have increased our investment in Sales and Marketing in 2011 in order to drive revenue expansion beyond Cisco, and to build our channel network.

In the third quarter of 2011, Sales and Marketing expenses totaled \$8.7 million, or 50 percent of revenues. R&D was \$7.7 million, or 44 percent of revenues, and G&A was \$1.3 million, or 8 percent of revenues. The third quarter non-GAAP operating loss was \$5.8 million, compared to operating income of \$1.6 million in the same quarter of last year.

The non-GAAP net loss was also approximately \$5.8 million or 31 cents per diluted share, compared to net income of \$1.6 million or 8 cents per diluted share in the same quarter last year. The non-GAAP amounts in the third quarter of 2011 exclude \$400,000 of stock-based compensation expense and \$400,000 of amortization of purchased intangibles. In addition, the non-GAAP results exclude a payment of \$800,000 related to the February 2010 agreements to acquire certain assets of Aethra.

The payment, which had been part of the original purchase agreement, was payable upon Italian Court approval to finalize the acquisition, which was received during the third quarter. Since the court approval and the payment were done after we concluded the purchase price allocation process, accounting pronouncement required us to expense this portion in the third quarter. Also, during the quarter, we paid an additional amount of \$1.6 million as part of the acquisition. This payment was originally secured by bank guarantee and it is part of our intangible assets.

Looking now at our balance sheet, we ended the quarter with cash and equivalents of about \$92.4 million, or \$5.01 per basic share. This was a decrease of \$8.9 million from the previous quarter. Cash used for operating activities was about \$5.5 million and CAPEX spending was about \$650,000. During the quarter we spent about \$450,000 on buying back approximately 75,000 shares, at an average price of \$5.94. In addition and as described earlier, we paid about \$2.6 million in payments with respect to the Aethra acquisition.

Our inventory turns increased to 89 days from 79 days in the previous quarter and our DSOs increased to 83 days, compared to 82 days in the previous quarter. The quarter was back-end loaded, which affected both our cash from operations and our DSOs.

The rest of the balance sheet remains very strong. We have no debt and our cash and equivalents, including long-term investments, represent about 65 percent of our total assets.

Turning to fourth quarter 2011 guidelines, we expect total revenues to be \$18 million, representing a 32 percent decrease from the fourth quarter of 2010, but 4 percent ahead of the 2011 third quarter. It is worth noting that our VBU revenues from Cisco were more than \$6.5 million in the fourth quarter of 2010, when we also had OEM revenues from LifeSize.

Our gross margin is expected to be 69.2 percent, in line with the change in our revenue mix as endpoints are becoming a larger percentage of our VBU revenues. OPEX is expected to be about \$18.1 million.

As a result, we are forecasting a non-GAAP operating loss of about \$5.7 million. The non-GAAP net loss is also forecasted to be about \$5.7 million, or 31 cents per diluted share.

We estimate option expenses at approximately \$700,000 and amortization of purchased intangibles at about \$430,000. As a result, we are estimating a net loss on a GAAP basis of \$6.8 million, or 37 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 were \$17.3 million, which was down 4% from the Second Quarter. While our Technology Business Unit had a solid quarter, our Video Business Unit revenues were lower than expected and we did not achieve the sequential top-line growth we initially planned. The re-appearance of economic fears this summer caused project slowdowns and further intensified competition across all regions. We also did not gain additional traction in endpoint sales in the Quarter, which remained at 32% of VBU revenues.

2011 has been a challenging year for us as we have fought to overcome the decline in our OEM revenues. Our non-OEM VBU revenues have increased 26% year-to-date, but our target is for higher growth. We have been investing in OPEX to accelerate the execution of our plan, which is focused on advancing our technology leadership, expanding our penetration of the room conferencing market with both our endpoints and full end-to-end solution, and growing our reseller channel. While we have made progress, more is needed for us to reach our targets and return to profitable growth.

There is no doubt that our technology advantages will continue to be the main driver of our future opportunity and growth. Therefore, one of our priorities has been to deliver on our technology development roadmap.

Our most recent technology advancement is SCOPIA Mobile v3, which became generally available on October 3rd in the Apple App Store. SCOPIA Mobile v3 is the third phase in the roll-out of our SCOPIA Mobile solution, which we first introduced in March 2010. We will soon add our Android version. SCOPIA Mobile v3 is a significant product introduction. It is the first enterprise-grade, fully interoperable mobile video application to enable HD video conferencing, data collaboration with review capabilities, conference call control, moderation, and administration – all through an intuitive user interface. While there are competing products now on the market, SCOPIA Mobile v3 is more advanced, with three distinct advantages.

1. It is fully interoperable with all standard room systems, all Telepresence systems and all major UC clients, including Microsoft Lync and IBM Sametime.
2. It offers standards-based H.239 data collaboration, enabling users to view presentations, spreadsheets and other documents in conference, along with a unique Content Slider for access to previously shared materials.
3. SCOPIA Mobile v3 enables the user to set up, moderate and control a videoconference from their mobile device, making it much more than an endpoint.

There is no competing product with these advantages. As a result, the market interest in SCOPIA Mobile v3 has been very strong, from both our enterprise and Service Provider customer base. With the number of mobile internet users forecasted to exceed desktop users by 2014, a mobility solution is critical for any Enterprise unified communications strategy. Service Providers recognize the advantages of this trend and its capability to extend their customer base.

Last quarter I discussed our success in penetrating the Service Provider market thanks to the design, features, and distributed architecture of our core infrastructure technology: all of which are especially suited for Service Providers. To take this a further step, we recently announced the interoperability of our infrastructure with BroadSoft's voice application server. BroadSoft is the leading provider of software to mobile, fixed line and cable operators for delivering real time communication over IP networks. The combination with our infrastructure enables Service Providers to incorporate video calls over SIP.

SCOPIA Mobile v3 is giving us additional leverage with Service Providers. For example, in the Third Quarter, an ASP that offers hosted desktop and mobile video conference solutions to universities in Northern Europe based on our Elite infrastructure added our new SCOPIA Mobile application to their solutions. We offer Service Providers the ability to create customized versions of SCOPIA Mobile under their own brand names and expect to complete such a deal with a major telecom customer in the next several months.

Service Providers are also an important potential market for our endpoints. A new Service Provider in Southern Europe purchased our Elite infrastructure in the Third Quarter. This was the first phase of creating an affordable bundle to include our XT 1000 endpoints and MCU resources on the Cloud. Further tapping the Service Provider market is one of our strategies for increasing endpoint sales and we are prioritizing our product development roadmap accordingly.

Of course, our endpoint strategy is also fully focused on the Enterprise market. The recent additions of our SCOPIA XT Telepresence Platform and SCOPIA XT 1000 Piccolo have extended the span of our portfolio from the very high end of the Enterprise market to the entry level user. We have Telepresence deals currently underway and saw initial sales of our Piccolo in Q3.

We saw several end-to-end deals in the Third Quarter in the education, healthcare and governmental verticals, which demand more advanced solutions and recognize the advantages of our technology.

This was true in EMEA, which was our strongest VBU market in the Third Quarter, despite being the focal point of recent economic worries. Our VBU revenues in EMEA rose 7% from the Third Quarter last year. While they were lower than the very strong Second Quarter, they are up 26% year-to-date.

Among the large projects for our end-to-end solution, there was one with an advanced education institute in Austria for our SCOPIA infrastructure and VC240. There was another for a French regional authority for our Elite and XT 1000 as well as one with a leading medical research institute in the U.K. for our infrastructure and endpoints. We also won a competitive bid in the financial industry in Spain for our complete solution, including our XT 1000 based on flexibility of our Elite platform and SCOPIA Desktop.

The Service Provider market in EMEA remained very strong for us in Q3. One of our largest deals there was with a major Telecom customer who expanded their SCOPIA infrastructure, added our Lync Gateway, and retained our professional services for the next release of their main hosted services project.

Turning to the Americas, our total VBU revenues increased 1% sequentially despite a 31% decline in Cisco revenues from Q2. This reflected strong recovery in our revenues in North America in the Third Quarter, where our non-OEM revenues are now up 19% year-to-date. The turnaround of our VBU in North America has been our major priority and we are putting new fundamentals in place, including the naming of a VP of Sales and filling in of sales territories.

In each case, we are adding individuals with extensive and proven video industry expertise and experience. The team has also launched our new marketing and brand-building campaign in the U.S. At this point, I would like to recognize Bob Romano for all he is doing as Acting GM in North America.

The education market is especially strong for us in North America and one of our largest deals there in the Third Quarter was for a distance learning program being introduced through a top East Coast university. The deal was for our total solution including our Elite infrastructure and ISDN gateway as well as our SCOPIA VC 240 and XT endpoints with high performance camera capabilities. There are plans to extend this global program further and we are working to be part of that growth.

Another large deal in North America with global scope was in the enterprise market. A Fortune 500 industrial manufacturer chose our SCOPIA Elite for multi-point connectivity with all their existing endpoints, including for remote users in the U.S., U.K. and in APAC. We won this deal in a head-to-head evaluation against our largest competitor. They chose RADVISION based on the ease of use and setup of both our Elite MCU with iView and SCOPIA Desktop.

Our strong performance in the CALA region has made an important contribution to our VBU revenues in the Americas over the past several quarters. In the Third Quarter, VBU revenues in CALA increased 50% from the same quarter last year, although they were lower than in the Second Quarter. In total, our CALA revenues year-to-date are up 161%.

We had a large deal with a Health Institute in Mexico in the Third Quarter for our SCOPIA Elite along with a large number of XT 1000s. This healthcare organization has deployed remote consulting and half of their 32 regional offices are already using RADVISION technology. A well-known university in Nicaragua has decided to deploy our technology with an initial order for our SCOPIA Elite and a number of XT 1000 Piccolos. We won a hard fight against our other major competitor in the Third Quarter in a deal for the legal system of Guatemala that finally chose our SCOPIA Elite and VC 240. Additionally, we won two public bids in the Quarter, one with the Brazilian Navy and another with the Ministry of Transportation in Ecuador.

We added channel partners to our growing channel network in CALA in the Third Quarter as we did in North America, EMEA and APAC.

While the performance of our VBU in APAC was solid in the Third Quarter, revenues also did not match the Second Quarter. However, we have achieved strong revenue growth of 23% year-to-date.

China remained our largest market in APAC in the Third Quarter and our channel partner in China was one of largest customers overall in the Quarter. Our deals in China are mainly for government projects. Our VBU revenues in China, which included both infrastructure and endpoints, were up 11% from the Third Quarter last year.

Japan has also been a very important market for us, although it remains in a recovery mode from the tragic tsunami. Even so, it was our second largest APAC market in the Third Quarter and we won a large infrastructure deal for a major enterprise through a leading channel partner in Japan. India also remained a good market for us in Q3, especially for our endpoints and we saw strong sequential improvement in Australia where we have added a new channel partner.

Let me now turn to our TBU, which had a solid Quarter, with revenues up 1% from the Third Quarter of 2010, up 10% sequentially and up 3% year-to-date. The important story behind these numbers is that our BEEHD solution is gaining traction and momentum while demand is also growing world-wide for our video monitoring and testing solutions, especially as real-time video usage increases the need to verify and ensure quality of experience.

Our BEEHD offers the market a framework solution that is highly customizable while offering RADVISION quality and video know-how inside as well as industry standards support and interoperability. In the Third Quarter, we had three major deals in APAC with ODMs and device manufacturers for our BEEHD video client framework technology. As a result, we are providing an optimized high quality video framework on the leading chipsets for mobile phones and tablets on the market today and we run on all of them. As our VoLTE technology is incorporated into these personal devices that are being used on 4G networks, we continue to advance our position in the standards-compliant video communication and video chat segment.

Our strength in the Service Provider market also extends to our TBU and we saw strong growth in Service Provider revenues in the Americas in the Third Quarter. A leading Service Provider in the U.S. licensed our video testing and monitoring solution as they are progressing with their video communication service deployment.

Our TBU today offers a unique combination that makes up a complete video deployment solution with customizable client frameworks, our VBU infrastructure products, and our testing and monitoring products. With this, systems integrators, service providers and vertical B2C application developers can quickly launch video services for their customers.

In conclusion, the Third Quarter was a period of challenges and disappointments as well as of advancement and competitive victories. We have focused on executing our plan throughout the year and our performance year-to-date shows that we have made progress. While we face a common challenge with our competitors due to the weakening macro environment, we are convinced that we can meet that challenge by continuing to execute our plan and making adjustments accordingly. Our strategy remains focused towards advancing our technology leadership, expanding the market penetration of our end-to-end solution, and growing our channel network.