RADVISION
First Quarter 2009 Conference Call
May 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 First Quarter 2009 results and Second 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.

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 first 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 first quarter. Total first quarter revenues were $18.3 million, a 6.7% decrease year over year.

Our Networking Business Unit had revenues of $13.6 million, 4.2% below the first quarter of 2008 and 6.5% below forecast. NBU revenues were impacted by an extended sales cycle, especially in the US due to economic uncertainty. They were affected also by lower than expected Cisco sales, as a result of their conservative inventory management. The balance of NBU revenues increased 5.5% over the same quarter last year, with strong 3G sales.

Our Technology Business Unit had revenues of $4.7 million, a 13% decrease year over year, but 5% above forecast.

Moving to geographic revenue mix, Americas represented 52% of revenues, EMEA 26% and APAC 22%. Looking at customer concentration, our top 10 customers generated about 63% of revenues vs. 56% in the previous quarter. Cisco was once again the only customer exceeding 10% of the total revenues.

Moving to expenses in the first quarter of 2009, I would like to remind you that all the numbers I'm going to discuss are Non-GAAP and exclude the effects of stock-based compensation. These effects can be found in the press release.

The Non GAAP Gross margin was 78.1% in line with our forecast. During this quarter, we finished the cost reduction initiative, resulting in quarterly savings of about $4.5 million. This represents a 23% OPEX reduction, quarter over quarter, and a 2% reduction year over year. Operating expenses were $14.5 million or 79% of revenues, as opposed to 93% in the same quarter last year, and 83% in the previous quarter. Sales and Marketing expenses totaled $6.7 million or 37% of revenues. R&D was also $6.7 million, or 37% of revenues. G&A was $1.1 million, or 6% of revenues.

The first quarter non-GAAP operating loss was $200,000, in line with our forecast. Non-GAAP net income was $600,000 dollars or 3 cents per diluted share. This was better than our forecast by $300,000 or 1 cent per diluted share.

The effect of stock based compensation was $1.1 million on the quarter's net income, or 6 cents per diluted share. There was also a loss of $300,000 on the write-down of Auction Rate Securities.

Looking now at our balance sheet, we ended the quarter with cash and equivalents of about $118 million, or $6.01 per basic share. This was a decrease of $3.6 million from the previous quarter. This reflects $1.1 million for the repurchase of about 205,000 shares, about $300,000 for CAPEX and $2.1 million for operations. Inventory turns are 19 days. DSOs increased to 68 days, compared to 57 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% of our total assets.

Turning to second quarter of 2009 guidelines: we expect total revenue to be $19.5 million. Our gross margin is expected to remain high at approximately 79%. OPEX is expected to decrease by 2% compared to the first quarter, to about $14.2 million, which is 27% lower than same quarter last year.

As a result, we are forecasting a return to operating profitability with Non-GAAP operating profit of about $1.2 million. We forecast Non-GAAP net income of about $1.5 million, or 7 cents per diluted share. We estimate option expenses at approximately $1.2 million and as a result, net income on a GAAP basis of $300,000, or 1 cent per diluted share.

This concludes my financial review.

Before I turn the call over to Boaz, I would like to comment on the recent announcement by our Chairman, Zohar Zisapel, of a special tender offer for 5% of our shares. For those of you not familiar with Israeli law, Zohar has nearly reached his legal limit of owning 25% of our shares. In order for him to purchase more, he must do so through a tender offer for no less than 5% of our stock. After that he will be able to continue buying on the open market up to the next threshold, which is 45% of our shares.

According to SEC regulations, the Board has 10 business days from the tender offer to file one of the following statements: recommending to our shareholders to accept or reject the tender offer, not making any recommendations, thus remaining neutral, or determining that they are unable to take a position.

We would like to clarify that the Tender Offer process is between Zohar Zisapel and the company's shareholders. The company has not participated in and can take no responsibility for the offer. Therefore, we cannot comment on this matter.

I would now like to turn the call over to Boaz.

BOAZ RAVIV, CEO

As Adi reported, we reached our goal of returning to profitability in the First Quarter of 2009, although our revenues were 4% below forecast. While our TBU revenues were better than expected, they were offset by lower NBU revenues, mainly due to more conservative than expected inventory management by Cisco. The balance of our NBU revenues grew 5% over the First Quarter of 2008.

Our improved bottom-line performance was made possible by the planned reduction in our OPEX budget announced last quarter, following a year of accelerated investment. As a result of that investment, we are moving forward with our product development plan, including two recent product introductions, which I will highlight.

Two weeks ago at the Wainhouse Summit in Berlin, we demoed our implementation of SVC scalable video coding technology on our SCOPIA conferencing platform, showing an improved desktop video experience. SVC is an extension of the popular H.264 video standard used by most videoconferencing devices today. Our implementation of SVC provides a higher degree of error resiliency and video quality while actually requiring less bandwidth compared to "traditional" error correction schemes on the market today. SVC allows organizations to rely on public internet connections, despite their inconsistent quality, rather than needing high quality and very costly service connections. We will introduce SVC technology into components of our SCOPIA product line this year, thereby bringing full interoperability of legacy systems with the SVC world for the first time. The main beneficiary is desktop video as desktop deployments are done in conjunction with connectivity to traditional room systems. Cisco will leverage our SVC conferencing solution to ensure scalable video interoperability. We will also work with our other partners as they enable systems to utilize SVC technology.

Another product introduction occurred last month at VoiceCon when Cisco demonstrated HD quality video integrated into WebEx, based on RADVISION technology. This is the project for Cisco's Next Generation solution mentioned on our last call. Our solution for WebEx embeds our video desktop technology in the WebEx client. It provides all the flexibility of our video desktop, enhanced layouts, continuous presence, video controls and High Definition video within WebEx meetings. Our video integration for WebEx has generated a high level of excitement internally at Cisco. They are seeding it through the Cisco community and we are finding strong interest among customers. In fact, due to the high interest, Cisco plans to deploy it internally for use by Cisco employees.

Now let me turn to my review of our Networking Business Unit in the First Quarter of 2009, beginning with Cisco.

While Cisco was more conservative in inventory management than expected in the Quarter, they have noted the growing level of interest in our product lines within Cisco. We were engaged with them in major projects in the First Quarter that will continue to contribute to our future results.

One of the largest was in the Federal market and included an initial shipment of a major order to an important customer. We expect a larger ramp-up of sales to this program in Q2, and with it, a return of Cisco revenues to a more normal level in the quarter.

We also had further sales in the First Quarter to a healthcare customer that I referenced in past calls as a major teaching hospital. It is Stanford Medical Center in Palo Alto, which is using our combined solution for real-time remote patient consultations, foreign and signed language translation, and medical training. This is one of several projects with Cisco where we are bringing video enabled Unified Communications to the healthcare services vertical, including teaching hospitals. This vertical is relatively tolerant to current economic conditions. We launched a campaign with healthcare teams at Cisco to capture more of the substantial opportunity in telemedicine.

Cisco's announcement at VoiceCon of their new Telepresence system, the lower-priced 1300 Series, is positive news for RADVISION. The new system can go into a standard multi-purpose conference room rather than requiring a room dedicated to Telepresence. It opens up the market significantly and expands the potential for our interoperability solution for Cisco, which will be sold with these systems.

We made continued progress in the First Quarter with our two other partners in the Unified Communications space, IBM and Alcatel Lucent.

Our sales with IBM reached a record in the Quarter as we benefited from our introduction in January of a RADVISION plug-in for IBM's Lotus Sametime. It is a unique solution bringing high definition desktop videoconferencing to Sametime's instant messaging and web conferencing. With this solution, these sessions can be extended to HD room systems, videophones and 3G mobile devices.

One of our major projects with IBM in the Quarter was the implementation of Unified Communications connected to room systems for a large multinational food corporation in France. The first phase of the project has a target of 6,000 users, and the potential is far greater.

Our results also included the second phase of a project for one of the largest banks in Italy, which is based on the IBM Unified Communications solution with voice, video and web collaboration using RADVISION. We are continuing to strengthen our relationship with IBM in the field through our joint marketing efforts.

We also continued our joint marketing effort with Alcatel Lucent and enjoyed additional sales through this relationship in the First Quarter.

We had a good quarter with our endpoint partners. That included record sales with LifeSize, which is continuing its market success. We saw sales through LifeSize to all regions of the world in the First Quarter, with the U.S. and Europe both very strong.

We also had a good quarter with AETHRA. Our sales included a major project for a large Italian Telco Operator for a hosted services platform they are developing for Italy and France based on SCOPIA. It includes equipment, support, maintenance and professional services, and is scheduled for launch in June. In total, our sales with our endpoint partners increased 21% year-over-year.

We had additional successes in the NBU in the First Quarter.

In EMEA, we won a large and important project with a major Operator in France to deploy full interoperable infrastructure to serve internal and external videoconferencing needs, from Telepresence to web-based clients worldwide. This Service Provider is targeting large, medium and small enterprises and, in the next phase, single end-users. They will deploy 320 video ports for multi-party calls and unlimited point-to-point calls. The key factors for selecting RADVISION were the availability of the SCOPIA Desktop, the high level of interoperability with multiple telepresence Vendors, system redundancy, high availability, and management software with an open API to allow customers to customize their services. We have already shipped nearly $1 million of products for the order, with recognition of those sales expected in the next few quarters.

We also won the largest videoconferencing infrastructure project in South Africa to date. It is for a major power company with approximately 30,000 users. This shows the continued success of our emerging market strategy, which brought us strong sales in Eastern Europe in past quarters. However, while Eastern Europe was especially hard hit by the economic crisis in the First Quarter, we still continued to have some follow-up sales in the region.

As was the case last quarter, we had a large 3G project in EMEA in the First Quarter. This time, it was with a Systems Integrator in the Netherlands for a project enabling a Service Provider to deploy 600 video mail ports in the U.K. Our 3G gateway continues to be in demand for its full interoperability, standards compliance and price/value advantages. We are expecting additional 3G deals in Russia and Turkey, but the financial crisis is causing some delays.

We also had an exceptionally strong quarter in 3G in APAC. We won a major competitive bid in China, which finally launched 3G on an enormous scale. We received a sizeable order for both 3G gateways and our Interactive Video Platform and there is more opportunity for us. China has the potential to be the largest 3G market in the world. We have an added strength in China because of our engineering presence there, enabling us to offer customized solutions developed within the country.

Also in APAC, we had several deals in the government sector, including two in India, where sales were above expectations, in Southeast Asia, and Korea. We did see the effect of economic conditions on other APAC countries that rely heavily on the U.S.

Turning to our Technology Business Unit, we are continuing to focus on getting our TBU back on track and pleased that our revenues in the First Quarter were 5% above forecast. Current economic conditions hold some benefit for our TBU as more customers look to more integrated and high level products or complete turnkey solutions. To serve this trend, we are pursuing a product development roadmap to “move up the food chain” and provide comprehensive solutions. There were several achievements in line with this strategy in the First Quarter.

The most important was our agreement with Texas Instruments for a High Definition Video Engine based on our new BEE**HD** software platform and TI’s DSPs. Our joint solution enables developers to build high end, High Definition interactive video endpoints at a considerably lower cost than other solutions available today. Our solution is suitable for commoditizing high quality video-enabled devices for both consumers and enterprises. This will help drive the growth of network solutions, thus benefiting our NBU. We have already had a deal for this product with a U.S. company and a major APAC equipment vendor that will bring high definition video endpoints to the consumer market.

We also made a joint announcement with Green Hills Software on the availability of RADVISION products on the Integrity Operating System typically used for military and federal grade applications. We will pursue more partnerships such as these.

Three additional deals in the First Quarter serve as examples of how we are extending our market solution beyond standard applications to provide complete solutions. In Europe, our suite of SIP server products and our Media Terminal Framework Technology are being used by a major transportation company for building an emergency communications system. In the U.S., a leading global provider of audio conferencing solutions is using our technology to build advanced audio solutions. In APAC, Datang Mobile selected our IMS Express Developer toolkit to develop a full IMS/NGN core network. Our IMS Express is the most comprehensive toolkit available for next-generation IMS network elements.

In Conclusion:

We achieved our profitability goal in the First Quarter of 2009 because we were able to return to a more normal level of OPEX spending following a year of accelerated investment.

We are seeing the return on that investment in the new product introductions I discussed today. Our product development effort is moving forward as planned.   We are also reaping the benefit of our deepening relationships with our Unified Communications and endpoint partners.

While the challenging economic conditions prevented us from realizing some expected sales in the First Quarter, including from Cisco, they helped us to win other projects. Video has proven its ability to reduce costs and increase efficiency and RADVISION offers an attractive value proposition in our video solutions.

Our next priority is to return to operating profitability, which we expect to achieve in the Second Quarter. We hope to return to year-over-year top line growth later this year.

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