

InfoVista SA
Q1 FY07/08 Financial Results
Conference call Script
October 30th, 2008

Philippe Ozanian

Thank you Karena and good morning and afternoon everyone.

After the disappointing performance of the past quarters, I am encouraged by the initial positive signs of the changes we've implemented, especially in our US operations. Recovery is a long process, but the transformation we have undertaken have begun to bear fruit this quarter and we will continue to build on this momentum. The huge investment we have decided to make in R&D is critical for the success of our Transformation plan. This investment will not only maintain our technological leadership but also and more importantly, enlarge our addressable market while accelerating our growth through radical innovation. However, driving a Transformation and Execution plan requires time, courage, focus and confidence in our ability to succeed. Be assured that we have all this at InfoVista.

Alain and I are very conscious that all of you are expecting a rapid turnaround of our activity and to that affect, today's announced acquisition of Accellent will accelerate our growth and improve the prospects for InfoVista, helping us to reach our bottom line objective.

However I am saddened to have to report that these promising developments have been tarnished by the correction of last fiscal year's numbers. We've had to restate our FY2007 financial numbers due to the discovery of a side letter signed, unbeknownst to us, by our European Sales VP. This letter stated that a partner was allowed to exchange or return the software solution on a €1.2 million deal. Although we'd correctly booked this deal in Q1 last fiscal year based on all the paperwork delivered to us, unfortunately the existence of this signed side letter gave a right of return and therefore the revenue had been improperly recognized.

This type of tactic to obtain, in appearance, a valid and enforceable order from a partner is totally prohibited at InfoVista and upon discovery we immediately terminated the employment of the VP involved. Since we became aware of the situation we have been working tirelessly to amend the situation and ensuring that this type of incident will never occur again. Furthermore, I would like to make it clear to you all that we believe this to be an isolated incident.

As a result of the correction, total revenues for the previous fiscal year 2007 stood at **8.2 million Euros** instead of the reported **9.2 million Euros**. Throughout my review of the financial highlights, I will make comparisons based on both the reported and corrected numbers for the period. Now let me start with slide 3 to discuss our top line numbers for the quarter.

Q1 total revenues rose to **10.2 million Euros**, up **24 per cent** on corrected revenues of **8.2 million Euros** of the last Q1. License revenues, representing **43 per cent** of total revenues, rose **40 per cent** from the same period last year, ending at **4.4 million Euros**. I'd like to point out that Q1 revenues do include a 2.2 million Euros contribution from the Microsoft deal we announced at the beginning of this calendar year. As we consolidate our numbers in Euros and continue to see a weakening dollar, it is worth mentioning that on a constant dollar basis Q1 total revenues was **10.6 million Euros**.

This quarter, we also saw strong contributions from our Services activities, which increased **15 per cent** to **5.8 million Euros**, representing the remaining **57 per cent** of total revenues. This improvement in our service numbers stems from the continued significant performance of our professional service or ProServ activities in all regions. In Q1, our ProServ revenues increased **37 per cent** year-on-year to end at **1.6 million Euros**. We also saw maintenance revenues increasing **8 per cent** to contribute **4.3 million Euros**.

Now let's take a look at revenue per geography on slide 4. Our American operations are showing some promising development. Its Q1 revenues amounted to **5.0 million euros**, accounting for **49 per cent** of total revenues. Although these results are still far from our expectations, I have to say that we are even more confident today that our American operations will lead our growth engine. The

quality of the team now in charge of our US operations, their commitment and eagerness to succeed combined with their winning spirit is driving improvement in our pipeline, the results of which we will see in the near future in our top line and bottom line numbers. As a first sign of this, I would like to draw your attention to one of our new customers wins in the quarter - Terrestar. Terrestar is a start up satellite wireless service provider and as such TerreStar needs the necessary OSS solutions in place prior to "go live" in October 2008. Our Partner, Accenture introduced us and after a thorough technical evaluation we were selected to fulfill all their requirements. During the quarter we also build upon our solid base of customers and we received repeat orders from Bell Canada, Bell Alliant and Wells Fargo.

Total Revenues in Europe were down **11 per cent** year-on-year against our corrected revenues and **26 per cent** year-on-year against our reported Q1 last year. EMEA contributed **39 per cent** of total Q1 revenues. In that region we secured various repeat orders from customers such as Maroc Telecom, who is embarking on a project to update their network with a new NGN with an all encompassing IP network. We will assist in managing Maroc Telecom's IP TV, IP Telephony and Triple Play services. Another customer, Telecom Italia returned to InfoVista to replace their existing performance management software. And thirdly, we secured another order from SFR, France's leading mobile phone provider as they were expanding their network. Finally in Asia, orders from 2 existing customers, Reliance in India and Optus in Australia pushed Asian's revenues up a **31 per cent** year-on-year to end Q1 at **1.2 million euros**. Our Asian revenues now represent **12 per cent** of total revenues.

Turning to slide 5, we will now review the major lines of our Income Statement for Q1. Gross margin was **78 per cent** of revenues compared to **80 per cent** for the same quarter the previous year, or the corrected **78 per cent**. This almost flat gross margin is mainly due to the strong contribution of service revenues to the total. We also transferred pre-sales technical employees from sales and marketing to professional services as these people are now billable to customers. Thus cost of services went up and correspondingly, sales & marketing went down.

Operating expenses for Q1 totaled **7.8 million euros**, compared to **7.7 million euros** in the same period last year. Sales & marketing decreased **9 per cent** year-on-year to represent **49 per cent** of total OPEX. This drop is primarily due to the shift in personnel that I'd just described above. We also saw a slight **3 per cent** year-on-year decline in our G&A expenses. These declines were offset by the **29 per cent** year-on-year increase in our R&D expenses. The increase represents the investment we're currently undertaking to beef up our R&D teams, including the extended development centre in Bangalore and our product management group.

In Q1, we incurred **0.4 million Euros** of financial losses. A portion of our cash was invested in money market funds and some of them have been affected by the subprime crisis in America. The devaluation of our investments placed in these funds explains most of the financial losses we incurred in Q1. We continue to have about **7.0 million euros** still exposed to a risk of liquidity and valuation but it is our belief that most of the devaluation has been incurred in the past quarter. Indeed, in October the valuation of this investment was very much stable.

For the first time ever, we achieved a positive operating profit in the first quarter of our fiscal year, which was **0.2 million euros**. However, as a result of the financial costs that I've just discussed, we posted a net loss of **0.2 million euros** for the quarter. On a constant exchange rate basis, the net loss would have been **46 thousand Euros** or almost break even.

Let me now conclude with some quick comments on our balance sheet.

First, our DSO stood at **65 days** at the end of September compared to **96 days** a year ago. Our cash, short-term deposits and financial assets ended at **36.5 million euros**, a slight sequential increase as compared to the previous quarter and an increase of **1.8 million euros** compared to last year.

Finally, before I hand off to Alain, allow me to touch briefly on the financial aspects of the acquisition of Accellent we'd announced today. The acquisition price, without taking into account an earn-out component payable in 2011 and based on high growth objectives, was **13.5 million euros**. This works out to an enterprise value revenue multiple of 2.6 times as Accellent's expected revenue

for this fiscal year ended in June 2008 is approximately **4 million euros** and we expect to have cash and cash equivalent of approximately **3 million euros** as at the date of acquisition. We believe this multiple is fully justified especially with Accellent's double digit growth and net margin of approximately 30%!

The acquisition is expected to be completed by 21st November.

Now I'll turn the call over to Alain. Alain please?

aAlain Tingaud

Thank you Philippe.

As I'd outlined last quarter, we've been taking various steps in making the right investments and changes in several main areas which are most vital in our growth; ie our Product Management Team, our Advanced Research Group and our software development organization.

So, I am particularly delighted about this acquisition that we've announced today and would like to spend this afternoon discussing some highlights with you.

Slide Introducing Accellent

Let me start by giving you some background on Accellent.

Founded in 2002, Accellent is a software company that currently has 17 employees.

Accellent solutions have been sold to more than 80 major corporations worldwide in a variety of industry sectors, including some service providers.

Accellent builds Application-Centric network monitoring products, which are used by global organizations such as Finance, Federal, Transportation companies to ensure the delivery of mission-critical and revenue-generating Applications & Services.

Slide InfoVista-Accellent Strategic Advantages

This acquisition of Accellent is a significant addition to our current customer offering.

Historically, we have focused our development efforts on building comprehensive performance assurance solutions and Accellent allows us to provide application monitoring visibility that complements our best of breed infrastructure, end-to-end application and service performance management quality monitoring strengths.

This will enable us to bring a one-stop-shop performance assurance solution to market.

Furthermore, we believe that Accellent's fully packaged appliance model will help us broaden our enterprise play into the mid market through appropriate distribution relationships.

This is something we will take up in the coming quarters as we execute on the integration roadmap, explore later on in the presentation.

A further key advantage of this acquisition is that the incorporation of Accellent's strong repository of passive application monitoring, traffic analysis and end user usage information's will enable us to provide the complete visibility that our customers need.

Slide : Technology Acquisition Completes InfoVista's Capability to Deliver Application Centric Performance Assurance

Our software is already a market leader in its depth and breadth of coverage of vendors, technologies and management technics for infrastructure performance monitoring.

InfoVista has also acquired and built technology for "active" end-to-end application monitoring that our customers use today.

"Active" means that the monitoring we do today is carried out by injecting test sessions or data into the network and measuring response and quality of

experience. This controlled mechanism is good for service reporting and assessing service level compliance.

Accellent's **5View family of products** supports multiple ways to collect application traffic and performance data including using Deep Packet Inspection (DPI) and NetFlow. Their core technologies in the passive application monitoring area will round out our application quality monitoring capabilities. Accellent's technology will help us measure real user and application traffic that is passing over the Infrastructure.

Accellent's application traffic monitoring capabilities leveraging mechanisms like **Cisco NetFlow**, along with the DPI mechanisms, will enable us to characterize the usage of the network by individual and type of applications, by end users and business groups and by different points of the network.

Together, InfoVista and Accellent will offer a market leading application-centric performance assurance solution.

Slide : How Accellent Adds Value to InfoVista

From a technology standpoint Accellent will add powerful passive monitoring capabilities leveraging NetFlow and DPI mechanisms to our infrastructure performance and end to end monitoring strengths.

This will enable us to provide high visibility and assure the performance of business applications, VoIP and emerging Triple Play services such as IPTV and Video on Demand.

Accellent's products are also very easy to use with drill downs that help users reach the right information quickly. The team has put a lot of thought and effort into capturing and building in the workflows that can enable less skilled staff to diagnose and investigate a problem.

Accellent software is packaged as an appliance product on standard Windows based computer configurations and is extremely easy to set up and deploy. We believe that this will facilitate ease of adoption not only for our large enterprise and service provider customer base but also enable us to venture forward into

the mid-market customer base that faces many more challenges in terms of hiring and maintaining skilled IT resources in-house.

Slide : InfoVista- Accellent – Joint Value Proposition

Accellent integration will enable us to provide a one stop shop solution for application-centric performance assurance for both our existing Enterprise and Service Provider target customers.

We believe

- that Accellent's products will open up new sales opportunities in our current customer base and help us compete in new customer deals.
- that the breadth and depth of technology and vendor coverage of the combined solution and the ability to scale to the largest customer environments will be unique in today's market place.

For operations teams, the combination will lower the cost and risk of supporting applications and end user services.

Operations staff will benefit from having a single pane of glass to receive performance alerts and troubleshoot infrastructure or application usage issues that underlie that. Knowing who is using what application, and how much bandwidth they are consuming, from which location and business group, enables operations staff to troubleshoot performance anomalies and assure application performance.

Lastly, the combined solution will help IT infrastructure groups within our customer organizations to better align with business objectives – which are often described in terms of application support and impact.

When Accellent's traffic and application usage information is mapped to our performance information repository, network managers will have the means to deliver on application-based Service Level Agreements (SLAs).

Finally, real user or application data along with detailed infrastructure utilization statistics is also a critical input to the calculation of chargeback between IT and business groups. As shared services organizations proliferate, mechanisms to collect and compute such data becomes a key requirement for the IT organization.

Slide : InfoVista- Accellent – Roadmap

We expect that the acquisition will be completed by 21 Nov 2007.

We intend to complete portal level integration of our solutions within the next quarter.

Later on, we will proceed on building advanced integration with our VistaFoundation platform that will enable us to deliver high value combined solutions by end 2008.

Accellent will operate as an independent business unit, selling into selected European markets, while InfoVista will act as a channel for global market distribution.

Outlook

To conclude, we are building step by step the new InfoVista and I'm excited about our new venture, as the new stronger offering will meet our customer's needs.

In addition, I am proud about the progress we are making with our in-house newly organized Product Management & Research Team and we are seeing very concrete productivity improvement in our software Development organization, particularly with the Extended Development Center. All this will allow us to close the gap with some of our competitors.

Let me now end with our outlook. I am positive about our future for the coming quarters. I'd like to confirm that revenue objectives will come in the range of 9.8 to 10.3 million euros. Please remember that this does not take into consideration any contributions from Accellent. Due to our continued investments in product innovation and R&D expenses, the bottom line will be negative.

We will provide more details of the Accellent acquisition, including financial and technical aspects at our next shareholders meeting December 18th along with the presentation of our Transformation and Executive Plan. Please do join us then.

Now Philippe and I will be pleased to take your comments and questions.