

***Welcome to InfoVista's conference call for the results of our second quarter of the fiscal year 2009/2010. From the Company today are Philippe Ozanian and David Forlizzi, InfoVista's CEO and CFO respectively. At this time, all participants have been placed in listen-only mode. Later, we'll conduct a question and answer session, for which we will provide instructions at that time. As a reminder, today's call is being recorded and may not be reproduced without written permission from InfoVista. Now, I'd like to hand over the call to Mr. Ozanian. Please go ahead, sir.***

**Philippe Ozanian**

Thank you, Operator. Before we begin, let me remind you that the comments made on this call and the responses to your questions may contain forward-looking information. These statements are subject to risks and uncertainty as described in our press release. You can find our press release at [infovista.com](http://infovista.com).

Today, I'd like to begin with some key highlights on our performance for the past quarter and the first semester. Then I'll provide some indications of what we see going forward.

Our top line performance during the first half of the fiscal year shows a slight decline year-on-year, excluding last year's Microsoft contribution and on a constant dollar basis. Given the environment and the challenges that we and our comparables are facing in the mature countries, flat revenues underscore two solid elements that must not be overlooked. The first being our ability to quickly adapt our business to seize the opportunities that we see. As such, we have successfully addressed the growing market of emerging countries and have aligned our service model to what our customers need. The second being the solid floor that constitutes our recurrent and growing maintenance revenues.

If we go a little bit deeper in the quarter and semester analysis, we see that year-on-year, License Revenues dropped significantly, while Service Revenues experienced double digit growth. This change in our revenue mix highlights the agility I was just talking about. As we faced increasing challenges in software spending, we rapidly changed gears to meet two

opportunities we saw. One to develop software adapters for specific types of network equipment and sold as a service to some of our customers. Second, for customers that were under short term budget restrictions, we are helping to maximize their existing installation through expertise sold as a service. We have quickly reacted to these opportunities, boosting our service margins and preserving our overall margins. And by the way, maintenance renewals have also been fueled by this ability we have shown to deepen our relationship with our customers.

Now, looking at our bottom line performance, you can see a significant productivity improvement with **5 percent** operating margin for the quarter and **3 percent** for the semester. These productivity gains are evident through the significant decline in all our operating costs, especially in sales and marketing that dropped **14 percent** for the quarter, **12 percent** for the semester.

This defensive approach was clearly required in the environment we were dealt with last calendar year. But this is also clearly not what we are in business for or what this company deserves. We think that we have come to a point of inflection where we can once again grow the top line, particularly in licenses. From now on, InfoVista will renew with year on year growth, and the second half certainly stronger than the first semester. Thus I reaffirm our objectives of **5 percent** top-line normalized growth and **5 percent** bottom line margin.

I would like now to touch base on 2 other initiatives, product innovation and partnerships that without doubt, will strengthen our top line growth in the second half and beyond.

On the product innovation front, I'm pleased to report that our new solutions developed and launched over the past fiscal year are starting to take off and are expected to contribute to license growth already in the second half. One example illustrates this: As you know, last May, we announced a new solution that unifies network and application performance management by combining in a single platform, application visibility, application response time and network management. This solution has already been adopted by several customers and we see more opportunities

coming. Second, Innovation continues at InfoVista with new solutions unveiled in the month of December which should start to contribute at the end of the second half. For example in December, we unveiled Vista360 a product that clearly leapfrogs our competitors' offering in terms of customer reporting and service performance troubleshooting. We have also expanded our offerings to serve the mobile packet core and the mobile backhaul. Mobile data explosion is clearly a big concern for our mobile operator customers. Our solutions help them take advantage of Ethernet Technologies in the backhaul to keep up with explosive demand for reliable data services.

Now let me say a few words on the partnership front. I know that some of you are eager to see the Cisco partnership contribute significantly and recurrently to our revenues. So are we! But we also know that before expecting Cisco to be a lead generator, we have to be relevant to them. With that in mind, we have invested in this partnership by releasing products that compliment and augment Cisco's networking technologies. As an example, our ViN solution can now be acquired through Cisco as an add-on to their Active Network Abstraction Solution. ANA is a Vendor neutral Device management module, specifically designed for Service Providers. By adding a performance management module, Cisco increases the value proposition of ANA and as such differentiates itself from the competition. Our pipeline with Cisco is growing and solidifying, as such, we expect a few deals to be booked before the end of this fiscal year. There is no doubt in our mind that we are becoming increasingly relevant to Cisco's strategy and offering, and we do believe that in the near future, we will see more and more positive impact to our top line from this partnership.

With that, let me hand the call over to David to review our financials for the quarter. Dave, please?

**David Forlizzi**

Thank you Philippe. And good morning and afternoon to everyone.

As Philippe has mentioned, InfoVista continues to focus its investments in partnerships and product innovations, despite the significant cost reduction

measures we have taken over the past year. With the tough economic environment that commenced over a year ago along with the end of the large multi-year contract with Microsoft in last fiscal year, InfoVista took swift action to implement expense management measures over the past quarters. This robust cost control allowed InfoVista to ensure a net margin of **5 percent** on total revenues of **10.7 million euros** in Q2.

License revenues stood at **3.6 million euros** for the second quarter. The year-on-year decline of license revenue can be attributed to two main reasons: first, license business in the mature countries has been negatively impacted by the tough economic environment. However, we are now seeing demand in mature markets stabilizing. Second, demand from certain customers has shifted from traditional license procurements to software developed as a service. These offerings are recognized as services and not as license revenues. Partly as a result of this last point, services revenues increased by **10 per cent** year-on-year to end the quarter at **7.1 million euros**.

In addition, another important factor in the year on year decline in license revenues is the fact that we have booked orders, largely in emerging countries which, for reasons related to the contracts, will not be booked as revenues until the fourth quarter of our fiscal year.

As a result of the higher contribution of software developed as a service and of growing maintenance revenues, we achieved a record level of service gross margin of **70 percent** in the second quarter (as compared to **63 percent** for the same period last year).

The strong service gross margins allowed overall gross margin to remain stable at **77 percent** in the second quarter.

Moving down the P&L, operating expenses were significantly optimized with an **8 percent** decrease year-on-year in the second quarter. Sales and marketing expenses stood at **3.7 million euros**, representing **35 percent** of total revenues. Last year, sales and marketing costs were **4.3 million euros** or **37 percent** of total revenues. This **14 percent** decrease in sales and marketing costs has resulted from several on-going actions, primarily

lowered personnel costs. Next, R&D expenses came in at **2.4 million euros** or **23 percent** of total revenues for the second quarter, compared to **2.5 million** last year. To compare apples with apples, R&D costs were down by **9 percent** compared to last year's second quarter, excluding R&D tax credits.

G&A expenses continued to decline as well; at **1.4 million euros** in the second quarter, they were down **3 percent** as compared to last year.

Let me now share with you, how we see our operating expense structure going forward. Having reached our target level for sales and marketing costs of **35 percent** of total revenues, our objective is to maintain this relative level of spending as revenues evolve. In other words, to be absolutely clear, we will not allow sales & marketing costs to grow faster than revenues.

On the other hand, we are still not satisfied with R&D costs at **23 percent** of total revenues in the second quarter. Our corporate objective continues to be at or below **20 percent** of total revenues. How will we do this? First, increased product innovation will drive revenues higher, realigning this metric to our corporate objective. In addition, InfoVista will augment its ability to leverage more cost efficient and variable development resources.

Lastly, G&A shall remain flat in absolute terms and improve in relative terms, barring any exceptional items.

Going back to our second quarter's P&L, we recorded operating profit of **0.6 million euros**, compared to last year's operating profit of **0.7 million euros**. Our net margin was **0.5 million euros**, as compared to a net margin of **0.9 million euros** in the same quarter last year. At the net level, the difference mainly results from lower financial income this past quarter due to a sharp drop in interest rates compared to a year ago.

Now, I would like to share some key points on our December 31 balance sheet. First, cash, cash equivalents, and short-term deposits stood at **23.5 million euros** as compared to **26.0 million euros** at the end of last quarter. This decrease came from **1.3 million euros** used on our share buyback program, where we purchased **2 percent** of our issued capital. The remainder of our cash consumption for the quarter comes primarily from operations, which resulted from the seasonality of our annual maintenance

business along with slower collections, notably in emerging countries. A significant portion of our maintenance business is invoiced and paid annually around the calendar year so the second half will see higher cash collections.

Days Sales Outstanding (or DSOs) stood at **78 days** for the second quarter, as compared to **73 days** in the comparable quarter last year. Our receivable balance ended at **9.2 million euros** at the end of December.

### **Philippe**

Thank you Dave. Before turning to the Q&A, let me reiterate what I think is the key message this quarter. 2009 was certainly a tough year, but we've done what we had to do to ensure the profitability and viability of our business model. Now it is the time to show what we're capable of, especially since we have put ourselves in a position to accelerate our revenues going forward, including the second half of the fiscal year.

Ok, let us open the floor to any questions that you may have. Operator, can you please provide the instructions for the Q&A session?

### **After the Q&A session - Philippe**

Thank you Operator. Thank you everyone for attending this call and your continued support for InfoVista.