

This is InfoVista's conference call announcing the financial results for the second quarter of fiscal year 2011. 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. I'd like to hand over the call now to InfoVista's CEO, Philippe Ozanian. Please go ahead.

Philippe Ozanian

Thank you Operator.

Welcome everyone to our call. Today, InfoVista delivered another strong quarter of year-and-year growth in total revenues, and a remarkable improvement in our operating margin. This achievement underlines the superiority of our solutions and more importantly a good execution on our strategic plan. I will come back on these two points in a minute but before we begin, allow me to remind you that the comments made on this call and the responses to your questions may contain forward-looking information. All our statements are subject to risks and uncertainties as described in our press release and annual report that you can easily find at infovista.com.

Our call today will be in two parts. First, I will discuss our business performance for our second quarter and then David Forlizzi, our CFO, will review the financial results. Then, we will conclude this call with a question and answer session.

In Q2, total revenues grew by **12 percent** to reach **12.0 million euros**. Our software product revenues grew by an impressive **38 percent**. Operating results doubled as compared to the previous year to **1.1 million euros** or **10 percent** of total sales.

Over the last six months, total revenues grew by **13 percent** while software product revenues grew by **35 percent**. Over the first half of this fiscal year 2011, InfoVista's operating results reached **1.6 million euros** doubling from a year ago. This now represents **7 percent** of total sales. This means that we are on track to achieve our fiscal year objective of at least **47 million euros** in total revenues and a **7 to 10 percent** operating margin.

Now let me go back to my initial comment on InfoVista's technological leadership. We are a leading provider of software solutions that allow Service Providers and large IT organizations to assure the performance of IP-based services. We do this by providing

end-to-end visibility on all kinds of network equipment combined with performance analysis on data traffic and application traversing the network. The uniqueness of our value proposition lies in this integration.

Across the globe, networks are experiencing unprecedented data traffic growth due to the increase number of users on the move wanting to access consumer and business applications. In addition to this trend, the promise of Cloud Computing is pushing the performance of hosted services to the forefront. As a result of these transformations, large organizations of all sorts must deploy technology that allows them to effectively assure the delivery of business-critical applications.

The power of our solutions is evident through the growth of our license revenues and the renewal rate of maintenance contracts from existing customers. However, a superior technology is not enough to deliver profitable growth. We at InfoVista understand that and this is why we have significantly transformed our business model over the past years to ensure that revenue growth turns into solid profit. Therefore, we will not be satisfied until we reach or pass the point of **20 percent** operating margin. To reach this goal we will continue to execute on the following strategies:

- First is to further improve the productivity of our sales and marketing organization. We are convinced that our solutions provide a solid return on investment to our customers and as such we should continue to concentrate our direct touch on capturing more value deals. In addition, we believe that the investments we have made in building solid business partnerships like the one we have with Cisco will, in the near future, augment InfoVista's market reach and number of sales transactions.
- Second is to provide our customers and prospects outstanding innovation with no increase in R&D spending. Here .we are transforming our R&D model by augmenting off-shore resources that are taking over the enhancements of existing products to allow our in-house team of developers to focus on innovation.
- Third, we will continue to leverage our installed base through our proven maintenance business model. In Q2, maintenance activities generated **82 percent** of gross margin. We strongly believe that we have more room for improvement here as we sell more licenses and continue to observe a very solid renewal rate on our maintenance contracts.

Now let me give you few examples on some of the major Q2 wins which would highlight the competitiveness of our solutions and the success of our strategy:

Our Cisco partnership brought in 2 deals this quarter. One is with Cisco's managed service organization to whom we sold additional licenses specifically in application management software. The second deal is with the Polish telecoms, TPSA, where we sold our solution for monitoring Cisco' Unified Communication offering. This solution was developed in conjunction with Cisco. With this solution, we enable SPs to roll out and assure the performance of hosted services such as collaboration or IP Telephony.

To conclude on the Q2 wins, I would like to mention that our solutions for application monitoring give us an opportunity to win new accounts and close sizable deals. One example is a deal in Brazil where we have recently established a sales presence. Another example is in the US, where our application management solutions were chosen for serving the needs of the highly secured network of the Department of Defense.

It is time now to hand the call over to David for comments on our financial performance. Dave?

David Forlizzi

Thank you Philippe. From a financial perspective, our past quarter marked record achievements. Total revenues, operating income, and net income were all at record high for a second quarter result. Consequently and as Philippe said, our first half performance puts InfoVista in a very good position to achieve our Fiscal year 2011 targets.

So let me provide you with some details on the second quarter. Second quarter total revenues were **12.0 million euros**, representing a **12 percent** increase compared to last year. Software product revenues stood at **5.0 million euros** for the second quarter, up **38 percent** compared to the same period last year. Second quarter maintenance service revenues of **5.5 million euros**, slightly increased as compared to last year, while other service revenues were **1.5 million euros**, compared to **1.6 million euros** a year ago.

Geographically, Americas and EMEA regions provided strong year-on-year revenue growth. A good mixture of deals from both traditional and emerging markets, backed by returning service provider customer orders boosted revenues in the second quarter.

America's revenues grew year-on-year by **33 percent**, representing **3.5 million euros** or **29 percent** of total revenues. EMEA revenues grew by **23 percent**, representing **7.2 million euros** or **60 percent** of total revenues. Lastly, Asia-Pac total revenues dropped by **43 per cent**, ending at **1.2 million euros** or **11 percent** of total revenues. This decrease in Asia-Pac is mainly due to the revenue recognition delay of a **0.5 million euro** software order along with lesser professional service revenues as compared to a year ago.

Moving down the P&L, gross margin came in at **78 percent** of revenues, up a point from last year's second quarter. Going forward, we expect gross margins to remain strong in the **77 to 78 percentile** range for the remainder of the fiscal year.

In regards to operating costs, research and development along with general and administrative costs once again remained flat as compared to last year, while decreasing as a percentage of revenues for a combined **4 percentage** points. Research and development costs stood at **2.4 million euros** or **20 percent** of revenues, compared to **23 percent** of revenues a year ago. General and administrative costs were **1.4 million euros** or **12 percent** of revenues, compared to **13 percent** a year ago. We continue to target keeping these costs flat in order to leverage additional operating margin from top line growth.

Sales and marketing costs were **4.3 million euros** for the quarter, representing **36 percent** of total revenues, compared to **35 percent** of revenues a year ago. This increase once again comes from higher personnel costs from both additional headcount as well as higher commission expenses. The past quarter contained approximately **0.2 million euros** of non-recurring costs, required to reorganize certain sales and marketing personnel for higher future productivity. We continue to target, for this fiscal year, **35 percent** sales and marketing costs as a percentage of total revenues.

Therefore, InfoVista recorded a record Q2 operating income of **1.1 million euros**, representing an operating margin of **10 percent** (which is at the high end of our fiscal year 2011 operating margin objective). As compared to last year's second quarter, InfoVista has doubled its operating income, an impressive result.

We recorded a financial loss for the second quarter for 91 **thousand euros**, as compared to **40 thousand euros** last year. Significant swings, especially with the US dollar against the Euro, resulted in **141 thousand euros** of foreign currency transaction losses.

So to sum things up for the P&L, we recorded a net profit of **0.9 million euros** for the second quarter, as compared to a net profit of **0.5 million euros** last year.

Moving to our balance sheet, I have a few key points. First, cash, cash equivalents, and short term deposits stood at **25.7 million euros** as compared to **24.9 million euros** at the end of the last quarter. Cash was mainly generated by **0.8 million euros** of operating activities in the quarter.

Our DSO was **79 days** as compared to **78 days** a year ago. Our DSO benefited from a large deal in the US that was booked and paid within the second quarter.

During the second quarter, InfoVista did not purchase any treasury shares. In mid-December, our shareholders authorized a buyback program of up to 6 euros per share. If the stock price remains below that level, you should expect cash to be used on this buyback program. Lastly, our board cancelled 340,000 treasury shares in second quarter representing approximately 2 percent of our issued share capital at that time.

Well that about covers it, now. Philippe and I will be pleased to take 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.

And thank you everyone for attending this call and your continued support for InfoVista.