Welcome to InfoVista's conference call announcing the financial results for its fourth quarter and fiscal year 2011. Joining us today on the call are Philippe Ozanian, InfoVista's CEO and David Forlizzi, CFO. 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 Mr Ozanian. Please go ahead.

Philippe Ozanian

Thank you. Welcome everyone. Today we are announcing our Q4 and full fiscal year results along with our objective for fiscal year 2012.

Our results for fiscal year 11 are very much in line with the preliminary estimates we communicated two weeks ago.

In a nutshell; total revenues ended at **45.9 million euros**, representing a **7 percent** year-on-year growth. Despite the shortfall in Q4, software revenues grew by **14 percent** for the full fiscal year, ending at **18 million euros**, while service revenues came in at **27.8 million euros**, or **3 percent** growth.

InfoVista's operating margin reached record levels of **14 percent** and **9 percent** for Q4 and fiscal year 2011 respectively. This remarkable progress of our financial performance is the result of significant improvement in our organization's productivity. We will not stop here as we strongly believe that we can further improve our profitability in the coming years.

Let me now provide more details on our top line performance for the quarter and the year. During our previous call, we revealed that our shortfall in Q4 came mainly from four large deals that were pushed into this fiscal year because of delays in negotiations. We continue to pursue all these opportunities and believe that two out of these four deals should be recognized in September. Despite our disappointment of not closing Q4 at expected levels, we should not overlook the fact that fiscal year 11 software revenues still grew at a double digit rate. We continued to gain market share and without doubt, have consolidated our dominant position within the service provider market as the de-facto standard for Performance Assurance. Allow me to illustrate this with a few examples.

We’ve made significant inroads in the mobile segment with our solution that helps Mobile Operators leverage Ethernet technology in the Backhaul. We see migration from legacy technology to Carrier Ethernet as a key driver for InfoVista’s future growth. We will continue to further increase our value proposition for the mobile segment by adding, before the end of this calendar year, a brand new solution to our product portfolio to address the growing concern of overloaded mobile networks in mature countries. Stay tuned, as we believe this will once again demonstrate InfoVista’s leadership in providing innovative solutions serving the most critical needs of our Service Providers customers.

During fiscal year 11, we have also solidified our positioning on monitoring, optimizing and reporting on Business Services. From VPN or application-aware VPN services to unified communication, data centers and other next generation services launched by Service Providers and used by large enterprises, InfoVista has secured multiple deals to assure the performance of IP-based applications and network services. Telstra, Telefonica, Cable and Wireless, Bell Canada, Telekom Malaysia, Saudi Telecom, Citi and Wells Fargo are just some of the largest customers who have renewed their confidence in our solutions and purchased additional licenses.

On the Services business, fiscal year 11 maintenance renewals have remained very high with record total revenue of **22 million euros**, up **6 percent** year-on-year. Professional Services, however, came in below last fiscal year’s performance. We should keep in mind that fiscal year 10 contained a high level of follow on services linked to software adaptations and specific development. This sizable business was only partially renewed in fiscal year 11, creating a shortfall of approximately **1 million euros**. This decrease was somewhat compensated in fiscal year 11 by the growing recurrence of professional service business related to software purchases.

Reviewing our revenues per region, we experienced some steady growth in EMEA and Americas but with a roller coaster effect given our dependency on large transactions. Notwithstanding these issues encountered especially in Q4, our two largest regions have otherwise seen positive patterns during the fiscal year, both growing on a year-on-year basis. In AP, revenues picked up significantly during Q4, but were insufficient to prevent a slight full year decline.

Now, I will focus on fiscal year 2012 outlook.

Notably, our commitment in fiscal year 12 will be on our operating income.

Over the past 3 years, we have done a great job in turning into a more productive software organization despite two inherent challenges: our small size and a global reach without a large home-based market.

Achieving 79 **percent** of operating profit improvement with only **7 percent** top line growth is remarkable. This proves that our business model focused on driving growth and accelerating profit is paying off.

This achievement gives us the confidence to set for fiscal year 12 an objective of operating profit between **5.2 million euros** and **6.2 million euros**. This means a **25 to 50 percent** year on year improvement.

Now, I will go into the key drivers of our productivity improvement.

Let start first with our Service organization. With regards to our customer support organization that sustains the maintenance renewals business, our gross margin here is superior to 80%. We will continue to improve our productivity as we have a recurrent and solid maintenance business combined with reliable and stable products.

Our Professional Services activities, which generate roughly **25 percent** of gross margin, leverage a pool of trained and certified partners providing us with variable and cost-effective resources. With this, we can grow revenues and solidify margin without taking the risk of inflating our fix-based costs.

Second is the productivity of our sales organization. We have limited resources on the ground to address the worldwide market. To maximize sales return, we have to be very focused by selecting our prospects and customers wisely and concentrate on value deals. Although with this strategy comes the risk of having lumpy quarters, it brings us an opportunity to gain market share by focusing on increasing the penetration rate within our installed base. To reduce this possible risk, we have built a source of incremental revenue through partners and OEM. However, this part of our business is still in its early stages. Therefore, we will continue to optimize our sales and marketing organization by investing more dollars spent in facing directly the customer as opposed to management and control.

Next, our R&D model has shown substantial results: Over the past 3 years, R&D spending has decreased, yet we have significantly increased our portfolio of products. During the course of fiscal year 12, more variable and cost-effective development resources will be leveraged to increase R&D productivity. Lastly, to accelerate innovation and enlarge addressable market especially in the mobile segment, without inflating our cost structure, we will seek to leverage partnerships with best of breed companies.

Finally, our G&A organization will remain at current costs as we believe we have the adequate structure to manage more revenues without adding more resources.

Allow me to move on to our fiscal year 12 revenue objective which is to reach total revenues of between **47 to 49 million euros.** This represents a modest growth of **3 to 7 percent**. The reason of our cautious approach here is attributed to two main factors: first is the recent growing concern of the overall macro economic conditions which is also recently echoed by some of our comparables. Second is our belief that we should not model any growth from our worldwide reseller agreement with Cisco given the recent announcement made by our partner.

Product wise, we expect to see further positive traction in emerging countries especially in the mobile segment. In this segment, Ethernet backhaul and end-to-end mobile infrastructure monitoring will continue to be the primary drivers for growth. We also expect to see early adaptors of LTE technology to implement our solutions for monitoring the performance of their newly-deployed network.

In the mature countries, the main source of revenues will come from our solutions assuring the performance of business services. The uniqueness of our carrier-grade platform that combines application and infrastructure visibility answers the very need of assuring the performance of next generation services such as hosted collaboration, communication or cloud computing services.

Let me conclude by stating that I'm confident we will continue to show significant accomplishments in term of innovation and bottom line improvement in fiscal year 12. Our productivity has reached new levels this past fiscal year and we will continue to raise the bar and leverage any improvement on the economic conditions to accelerate growth.

And now David will provide you the additional details on our financial performance for the fourth quarter and fiscal year. David, please.

<u>David Forlizzi</u>

Thank you Philippe. And good morning and afternoon to everyone. To start off, I would like to confirm that InfoVista's financial results for the fourth quarter and fiscal year 2011 reported today are in line with the preliminary estimates for both total revenues and operating margins that were provided on July 11th.

Total revenues were **11.5 million euros** for the fourth quarter, representing a **6 percent** decrease compared to last year. Software product revenues stood at **4.4 million euros** for the fourth quarter, as compared to **5.2 million euros** for the same period last year. As mentioned with our preliminary estimates, this decrease resulted primarily from four large orders slipping into fiscal year 2012. Fourth quarter maintenance revenues of **5.4 million euros,** increased **8 percent** as compared to last year. We continue to benefit from an increasing maintenance revenue base, despite the weaker US dollar in this year's fourth quarter, as compared to last year. Lastly, other service revenues were **1.6 million euros,** compared to **2 million euros** a year ago. This drop came from a **0.6 million euro** service contract that was fully recognized in last year's fourth quarter.

For the fiscal year 11, total revenues were **45.9 million euros**, representing a **7 percent** increase compared to last year. Software product revenues stood at **18 million euros**, a **14 percent** increase as compared to last year. Software revenues experienced solid growth for the fiscal year, despite the fourth quarter shortfall. Software sales benefited from communication service providers and large financial institutions from mature markets, such as the United States, Spain, and UK as well as emerging markets, like Africa, Brazil, and Middle East. Maintenance service revenues of **22 million euros** for the fiscal year**,** increased **6 percent** as compared to last year, while other service revenues were **5.9 million euros,** compared to **6.4 million euros** a year ago.

On a regional basis, EMEA revenues stood at **6.7 million euros** for the fourth quarter, representing a slight drop of **2 percent** year-on-year. EMEA revenues were **59 percent** of total revenues for the fourth quarter. Americas' revenues amounted to **3.3 million euros** or **28 percent** of total revenues for the fourth quarter. The **17 percent** year-on-year decline for Americas' revenues in the fourth quarter is due to the lack of large deals, compared to last year's fourth quarter that contained a single software deal for **1.5 million euros**. Asia-Pac total revenues rose by **6 per cent**, ending at **1.5 million euros** or **12 percent** of total revenues for the quarter.

For the fiscal year, both EMEA and Americas' region total revenues were up **8** and **9 percent**, respectively, as compared to last fiscal year. EMEA revenues stood at **26.2**

million euros or **57 percent** of total revenues, while Americas' revenues amounted to **13.6 million euros** or **30 percent** of total revenues for the fiscal year. Healthy software and maintenance revenue growth, especially with our 400 plus active install base, led to the fiscal year 2011 revenue growth in both regions. Asia-Pac total revenues fell **4 percent**, ending at **6.1 million euros** or **13 percent** of total revenues for the fiscal year.

Next, gross margins came in for the fourth quarter and fiscal year at **79 and 78 percent** of revenues, respectively, each up **1 point** from last year's comparable period. Higher mix of software revenues boosted overall gross margins. During next fiscal year, we continue to expect gross margins to remain strong at around **78 percent**.

In regards to operating costs, total operating expenses decreased **11 percent** in the fourth quarter as compared to the previous year's same period. A variable cost structure along with stringent cost control allowed InfoVista to provide continued operating margin progression in the fourth quarter, despite its revenue shortfall. For the fiscal year, operating costs increased only by **3 percent**, as compared to last fiscal year.

Sales and marketing expenses stood at **3.7 million euros** or **32 percent** of revenues for the fourth quarter, while this cost line was **16.2 million euros** or **35 percent** of revenues for the fiscal year. Strong productivity achievements were made, as compared to last year. Average quota carrying sales headcount fell from **21 sales persons** the previous fiscal year to **18 sales persons** during fiscal year 2011, boosting software revenue per sales rep up **33 percent** for the fiscal year. With **16 sales persons** anticipated in fiscal year 2012 along with a leaner sales management team, we expect sales and marketing costs to decrease as percentage of revenues by **1 to 2 points** in fiscal year 2012, as compared to last year.

Research and development expenses stood at **2.2 million euros** or **20 percent** of revenues for the fourth quarter, while this cost line was **9.2 million euros** or **20 percent** of revenues for the fiscal year. Research and developments costs also benefited from productivity improvements, as average R&D headcount has been reduced by **7 percent** year-on-year while new product enhancements hit the market throughout the past fiscal year with several new product releases. In fiscal year 12, we anticipate R&D costs to be between **19 – 20 percent** of revenues.

Lastly, general and administrative costs were **1.4 million euros** or **13 percent** of revenues, for the fourth quarter, while this cost line was **5.7 million euros** or **13 percent** of revenues for the fiscal year. We continue to maintain tight cost control on general and administrative costs. With the recent initiatives such as a newly implemented worldwide ERP tool, I am confident that we can continue to peg administrative costs at or below **6 million euros** to support future growth for the years to come.

So, at the operating income level, InfoVista booked **1.6 million euros** and **4.2 million euros** of operating income for the quarter and fiscal year, respectively. This record level achievement represents both the highest fourth quarter and fiscal year operating income in the **16 year** history of InfoVista as well as an impressive **79 percent** increase for the fiscal year.

At the bottom-line, we recorded a net profit of **2 million euros** and **3.9 million euros** of for the quarter and fiscal year, respectively. In the fourth quarter, InfoVista recorded a net tax benefit for 0.4 million euros, which included a deferred tax benefit of 0.6 million euros and an income tax expense of 0.2 million euros. As a result of past trends in positive net result performance as well as positive future outlook, we have determined that an increased portion of our deferred tax assets should be recorded.

Moving to our balance sheet, cash, cash equivalents, and short term deposits stood at **25.7 million euros** as compared to **26.2 million euros** at the end of the last quarter. **1.8 million euros** of cash was generated from operating and investing activities in the quarter, while **2.4 million euros** of cash was primarily used to repurchase treasury shares. For the fiscal year, **3.2 million euros** of cash was generated from operating and investing activities, while **3.4 million euros** of cash was used on stock buyback. Lastly, our receivables continue to remain clean with another quarter of nearly zero bad debt expense. DSOs for the fourth quarter were **97 days** as compared to **98 days** a year ago.

Well that about covers the main points. 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?

<u>After the Q&A session - Philippe</u>

Thank you Operator.

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