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Final Transcript

RADWARE: Second Quarter 2016 Earnings Call

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SPEAKERS

Anat Earon-Heilborn – Vice President-Investor Relations
Doron Abramovitch – Chief Financial Officer
Roy Zisapel – Chief Executive Officer and President

ANALYSTS

Alex Henderson – Needham
Michael Kim – Imperial Capital
Jess Lubert – Wells Fargo Securities
Joseph Wolf – Barclays
Mark Kelleher – D.A. Davidson
Catharine Trebnick – Dougherty and Company
Rohit Chopra – Buckingham Research

PRESENTATION

Moderator Ladies and gentlemen, thank you for standing by and welcome to the Second Quarter 2016 Earnings Call. At this time all lines are in a listen-only mode. Later, we will conduct a question-and-answer session and instructions will be given to you at that time. [Operator Instructions] And as a reminder, today's conference call is being recorded.

I'd now like to turn the conference call over to Anat Earon-Heilborn. Please go ahead.

A. Earon-Heilborn Thank you, Cynthia. Good morning, everyone, and welcome to Radware's Second quarter 2016 Earnings Conference call. Joining me today are Roy Zisapel, President and Chief Executive Officer; and Doron Abramovitch, Chief Financial Officer.

A copy of today's press release and financial statements, as well as the investor package for the second quarter, are available on the Investor Relations section of our website. On the website you can also find my contact details. I look forward to working with you all.

During today's call, we may make projections or other forward-looking statements regarding future events or the future financial performance of the company. We wish to caution you that these statements are just predictions and we undertake no obligation to update these predictions. Actual events or results may differ materially, including but are not limited to general business conditions and our ability to address changes in our industry, changes in demand for products, the timing and the amount of orders and other risks detailed from time-to-time in Radware's filings.

We refer you to the documents the company files from time-to-time with the SEC, specifically the company's last Form 20-F filed on April 21st, 2016.

Please note that management will participate in Oppenheimer Technology, Internet & Communications Conference in Boston in August and in Dougherty's Institutional Investor Conference in Minneapolis in September.

With that I will turn the call to Doron Abramovitch. Doron?

D. Abramovitch Thank you, Anat, and welcome to Radware. Good morning, everyone and thank you for joining us on the call today. I will start with an analysis of our financial results and business performance for the second quarter and then move on to our outlook for the third quarter of 2016.

Revenues for the second quarter were $49.6 million, in line with our expectations. Looking at the geography breakdown, revenues from the Americas were $22.1 million, representing 45% of total revenue. Revenues from EMEA were $14 million, representing 28% of the total, and revenues from APAC were $13.5 million, representing 27% of total second quarter revenues. Revenues from the enterprise vertical were $34.4

million and contributed 69% of total revenues, whereas carrier revenues were $15.2 million, representing 31% of the total.

Before I move to discussing the expenses and profit, let me remind you that I will do so in non-GAAP terms. The differences between the GAAP and non-GAAP results for the quarter come primarily from stock-based compensation expenses as well as from litigation costs, amortization of intangible assets, and exchange rate fluctuation related to balance sheet items. For a detailed GAAP to non-GAAP reconciliation, please refer to the financial tables accompanying our press release or to the investor package posted on our site.

Non-GAAP gross margin was 82.7% in Q2 2016 compared to 83.3% in Q3 last June and in line with our expectations. Our operating expenses were $39.6 million compared with $35.4 million in Q2 last year. We continue to invest in our business and in particular in sales and marketing in order to support our initiatives across regions and solutions as well as our focus on providing superior customer service.

Non-GAAP net income this quarter was $2.6 million, or $0.06 per share diluted, at the higher end of our guidance, and compared with net income of $10.8 million, or $0.23 per share diluted in Q2 last year. The weighted average number of shares used for calculating diluted net earnings per share for the second quarter was approximately 44.1 million shares. We ended the quarter with approximately 43.7 million shares outstanding, a decrease of 457,000 from the end of Q1 reflecting our share repurchase activity.

As of June 30, 2016, we had approximately $315 million in cash and financial investments. We generated an operating cash flow of $7.8 million and spent $4.9 million on the repurchasing of our own shares. We plan to execute the remainder of our $40 million share repurchase plan in the coming few quarters.

The total sum of short and long-term deferred revenues on our balance sheet was $80 million. Adding uncollected bills amounts, which are offset against trade receivables of $19 million, is up to a total of $99 million, up 20% from $82 million at the end of June 2015. We believe this metric, which represent a portion of our existing service contracts with customers, complements the revenue data in giving a more comprehensive picture of our business as it transitions from product purchases to service subscriptions.

We ended the quarter with 992 employees. We believe we have the right structure to support the business in its transition phase and to continue to innovate leading solutions and bring them to the market.

Moving on to our outlook for the third quarter, we expect revenues to be between $50 million and $53 million reflecting year-on-year growth despite the currently challenging business environment, and our assumption is it will not improve significantly by the end of this quarter. Non-GAAP gross margin is expected to be approximately 82.5%. Non-GAAP operating expenses are expected to range between $39.5 million and $40.5 million. We expect non-GAAP effective tax rate to be 16% and non-GAAP EPS is expected to be between $0.07 and $0.09 per share diluted.

I will now turn the call over to our Roy.

R. Zisapel Thank you, Doron. We had solid results for the second quarter with strong bookings in the Americas and the Service Provider segment. We are well positioned to resume growth in the second half of 2016. We continue to be very focused on executing our strategy. First, providing a comprehensive integrated solution for datacenter application delivery and security. Second, lead innovation in the market as it relates to data center attack mitigation, secure hybrid clouds and SDN/NFV applications for secure networking.

In the second quarter, we announced that our Virtual Alteon Application Delivery Controller achieved 20-gig performance, the industry's highest in OpenStack environment. OpenStack today is the de facto next-generation data center orchestration tool in cloud and hosting environments, and has gained a lot of traction with enterprises. Alteon Virtual Appliance for OpenStack is now more than five times faster than the nearest competitor. This level of performance allows the network operators to truly leverage the advantages of virtual infrastructures in OpenStack environments.

Our third bullet in our strategy - increase our market footprint and position our channels, OEMs and alliances, as well as cloud and content delivery network channels. We look forward to Cisco's release of the FirePower 4000 line for the whole enterprise market with our DDoS module embedded in August. Once done, we will be at the position to start enjoying these OEM relationship revenues.

Fourth, we continue to build our subscription revenue base including cloud and product subscription offerings. This past quarter, we had record bookings from our cloud security and product subscriptions. We believe we are progressing well on this front and continue to build upon this new and rich revenue strength of the company.

A nice example of a new cloud security customer is Myntex. Based in Canada, Myntex is the leading provider of trusted encryption solutions. When hit with a series of massive DDoS attacks in April that combined numerous attack vectors, Myntex experienced zero service interruptions and downtime. By implementing Radware Solution, Myntex was able within minutes to regain normal operations during the cyber-attacks. Many applications and network DDoS attacks have been mitigated since the service was activated, including two massive attacks of 130-gig and 113-gig per second. This shows the magnitude of attacks currently taking place as well as the clear advantage we have in protecting enterprise customers and their digital presence.

We continue to invest in our cloud security infrastructure. We opened our Tokyo cloud security center, allowing local Japanese customers to enjoy best-of-class cloud security services.

We've also received additional security certifications, including ISO27001, ISO28000 and PCI. And our excellence in the cloud security area was noticed by *Secure Computing Magazine* that awarded Best

Managed Security Service for 2016 award to Radware's Cloud Security Service.

As I mentioned earlier, the service provider segment was strong. Last quarter, we announced that PenTeleData chose Radware to protect its own networks as well as its customers connected through its IP services. PenTeleData is a strategic partnership of local cable and telephone companies servicing Pennsylvania and New Jersey. This customer win was a competitive displacement resulting from dissatisfaction with the existing solution they had.

The evolving threat and attack landscape, and the inability of the existing solution to block some of these attacks, resulted in application disruptions, connectivity disruptions, and security risks. This competitive displacement is yet another proof point of our technology edge in the attack mitigation space.

From a technology point of view, we have several key differentiators on the security front. First, our products utilize exceptionally strong and deep behavioral security technology that is based on mathematical Fuzzy Logic algorithms. This is in sharp contrast to our competitors that use thresholds to detect attacks. This is a major difference in our ability to accurately detect attacks without false positives or false negatives, critical to the success of the solution.

Second, our products can create, on the fly in real-time, the best matching real-time signature for the detected attack. This is in sharp contrast to other competitors requiring manual configuration with a signature that needs to be first defined and second, configured by a human being. This is critical success factor when the number of attacks is on continuous rise and giving the absolute need to protect in real-time without waiting for slow error-prone manual processes.

Third, we have a unique and strong incident response automation that allows us to block a certain attacker that is identified in either a certain area or specific application in the data center and can block that attacker from accessing any applications across the global data center footprint. Our competition does not have an offering here.

Fourth, we provide the fastest attack mitigation system in the world capable of blocking network and application DDoS.

And finally, we have a comprehensive hybrid cloud architecture, which utilizes our behavioral web application firewall and DDoS capabilities to provide the best-in-class security.

Based on these technological advantages, we were able to secure the business of leading Tier 1 carriers globally, 10s of cloud and hosting providers, multiple leading banks, leading content delivery networks such as Akamai, Level 3 and Limelight, and have been chosen by both Check Point and Cisco as their preferred DDoS solution.

Looking into the second half of 2016, we believe we are making solid progress in our business efforts. We continue to enjoy a strong product differentiation in the market. We are progressing with the build out of our cloud capabilities worldwide and continue to attract more customers along these lines. We continue to enjoy a strong cash position of $315 million, which we intend to use strategically to enhance our portfolio as well as finance our buyback plans. Based on these strong fundamentals, we expect to resume our growth in the second half and continue to increase our cloud security business.

I would like to open the discussion now for Q&A.

Moderator Thank you. [Operator Instructions] We will first go to the line of Alex Henderson with Needham. Your line is open.

A. Henderson Thank you very much, so a couple of quick questions for you. The forecasts for the fourth quarter, I know you guys only want to do one quarter at a time, but the forecasts for the fourth quarter are up quite substantially versus the third quarter. Given the single digit numbers in the first three quarters of the year based on the 3Q guide, is it reasonable to think that we ought to be looking at very modest sequential improvement and not the $0.15 to $0.20 kind of numbers that are out in the Street? Are the Street estimates too off mark at this point?

R. Zisapel We don't give guidance as you know for the fourth quarter, but I would not expect anything beyond the regular trends that we had in past years. We don't view this year as an exceptionally strong Q4, especially given the economic situation across the world. So, it might be too high, as you're pointing to.

A. Henderson Yes, thank you for clarifying that. The second question is how should we be thinking about the royalty numbers coming in from Cisco? Is that first kind of checks in the third quarter in the September timeframe, and then ramping into 2017? And how large a number can that be? And any sense of the initial uptakes you know or the trajectory of that that royalty opportunity.

R. Zisapel Yes, so, we believe it will start in Q3, obviously on a low level, and ramp from there. We don't have yet statistics that we can share on the attach rate and the success of the Cisco product line, but obviously as I have mentioned in the comments the release of the 4000 line, which is the enterprise next-gen firewall, I believe will signal the term in Cisco to push the next-gen firewall product line over the current firewall line. And once that's being done, I think we will have much better clarity.

A. Henderson Okay, one last question, and I will cede the floor. Any thoughts on the conditions in Europe post Brexit. Can you address that? Thanks.

R. Zisapel We don't have clear visibility. I am not sure Brexit is the biggest event. If you look on the recent security events in Germany and France that might be even more worrying I think for the economy and tourism, et cetera, so we are tracking that. Q3 in any case is a relatively weak quarter in EMEA, and we took that into consideration in our guidance and we will track the situation.

Moderator Thank you. Our next question will come from the line of Michael Kim with Imperial Capital. Your line is open.

M. Kim Hi, guys. Can you just provide an update on the opportunities for ADC with NFV? Are you starting to see a ramp in production tenders? And how should we think about that translating into the overall ADC business relative to the product purchases?

R. Zisapel We think ADC/NFV and also I have mentioned the OpenStack environment are - clearly there is growth in ADC markets. We've discussed in previous calls maybe some areas that are weaker for ADC, but we’re definitely seeing several examples where there is a lot of potential growth in ADC, NFV being one of them. We are starting to do some initial projects in this area in Europe and in the Far East, and getting calls also in the U.S. with the early proof-of-concept.

M. Kim And is the main differentiator the performance versus competition, or are there other factors that maybe is driving some of that project activity?

R. Zisapel So, first, there is a very strong performance advantage in NFV. The key point, when carriers move to NFV, they obviously don't want to lose scale. And until today, and I think this is still the situation with our competition, the software solutions, even on regular application delivery functions are dramatically slower on the general purpose server than the appliances. We have a leading NFV performance capacity of 220 gigs today. We have the leading performance in OpenStack environment of 20-gig. And for the carrier customers it means that they can really move this function of traffic steering in mobile networks or load balancing in the cloud environments, they can move that function from a proprietary appliance to a software based solution running on X86. So, our performance is the critical factor even in enabling such a project to take place, because otherwise it simply fails on the performance metrics of the current solutions.

M. Kim — Great, and then lastly, I am not sure if I missed this, but can you provide a metric on what percentage bookings came from subscription sales, cloud and product subscription?

D. Abramovitch — Well, we didn't say. But Roy mentioned that it was the best ever subscription booking, but we didn't say the number. We do not reveal it.

M. Kim — Okay, great. Thank you very much.

Moderator — Our next question comes from the line of Jess Lubert with Wells Fargo Securities. Your line is open.

J. Lubert Hi, guys; a couple questions as well. I also wanted to follow up on the outlook. You'd previously suggested the business would return to double digit growth during the second half of the year. You're now guiding quite a bit below those levels. I guess I just wanted to understand what changed in your forecast, maybe what the delta is versus your prior expectations with respect to the trajectory of the recovery you'd previously been forecasting in the second half?

R. Zisapel So, first you know we would like to take it one quarter at a time. For Q3 the leverage of our guidance is below double-digit, but if you look on it, it depends where we will be on the whole range. So we might see double-digit, we might be a little bit below that. Anywhere, I think our guidance goes from 4% to 10% on the mid-range to around 7%. So obviously it’s below a clear double-digit guidance; however, we still see a way to achieve that.

I think the two main factors that are different. Number one, we see stronger subscription sales than we initially thought, so the mix in booking between product and subscription is getting stronger on subscription. I think you can see that on some of our financial metrics.

And second, the situation in some of the markets internationally is more challenging than we first began entering into the year in Q1.

I think those are the factors. We still look at very good growth especially on booking and to some extent on revenues in second half.

J. Lubert Roy, can you tell us how much Cisco revenue you are embedding, if any, into your Q3 forecast? I know there's a lot of uncertainty as to how much it will deliver, but to what degree are you factoring Cisco into the Q3 forecast?

R. Zisapel In Q3, it’s very little so any meaningful contribution would be an upside.

J. Lubert And then just the last one from me, the enterprise business has now declined sequentially for six consecutive quarters. When you talk about a return to growth in the second half of the year, given some of the bookings and the shift to subscription, would you also expect to see that on the enterprise side, or is the growth you're looking at for the second half really more carrier focused?

R. Zisapel Most of our subscription business is enterprise. So I think what you’re seeing on the enterprise revenue recognition is not necessarily decline in bookings because in some markets like in America I think we are growing quickly there. However, you are seeing the impact of the subscription revenue recognition as the cloud service, the product subscriptions are targeting that market and, to a much lesser extent, the carrier and service provider.

So we believe that market would also ---the trends there are good especially in the financial services, in online customers, and I believe you will see improvement also, once the subscription revenues are getting into full recognition.

J. Lubert And does that start in Q3? Just trying to understand when subscription starts to become a tailwind versus a headwind?

R. Zisapel I think in Q3 we're starting to enjoy that.

J. Lubert All right. Thanks, guys.

R. Zisapel And being a growing factor as it's prorated over the contract time. So as quarters are passing, I think we will start to get into each quarter with much more annuity business contribution from previous bookings.

J. Lubert — Thanks, guys.

Moderator — Thank you. Next we'll go to the line of Joseph Wolf with Barclays. Your line is open.

J. Wolf — Thank you. Just as a follow up, I think, to that question, you mentioned some numbers that I was just hoping you could repeat. With the $80 million to $99 million to get to the deferred revenue, would you mind just going through that again? And then explaining how that works from a cash flow perspective?

D. Abramovitch — Okay, well in the balance sheet you see the $80 million this is deferred. What we added for last few quarter is another additional, this quarter we did $19 million it's the uncollected bills which were offset from the AR meaning that we didn't collect the money yet, so it's not part of our AR and it's not part of the deferred revenue. So from a cash perspective it's a timing issue. From a cash perspective, we didn't collect it yet. It's supposed to be, I assume as the business is growing, in the next quarter or something like that. This is the only difference between the $80 million and the $99 million.

The metrics that we say about is the $99 million is reflecting in a way our business. By that you can connect to what Roy mentioned regarding the subscription impact. So you can see that the growth is going – instead of what we used to have in the revenue - now it's going to the deferred or to the additional $19 million.

J. Wolf — Okay. That was helpful. I didn't understand the first time around. Could you give us an update, you mentioned it during the remarks, but could you give us an update on the Check Point relationship and how that's turning into sales?

R. Zisapel — I think we are progressing there well. We are enhancing now the relationship also to our cloud solution and we are doing joint marketing with them in North America. And I think at least the pipeline we're seeing continues to improve very nice, new customer wins in the quarter. Of course it can contribute more to us given their size and we are working together to increase those numbers, but we have very good cooperation and commitment from both sides.

J. Wolf — Thanks. And then just finally on the geographic split, was there any specific slowdown in the last couple weeks of the quarter, or was it as a general sort of market condition that you're referring to? And then, could you just help us out in terms of the mix of business as you go through security subscription? Are these trends the same globally, or are the contributions from the different geographies slightly different right now?

R. Zisapel I don't have anything specific on the international markets to say. In Americas, we did see acceleration during the quarter and we are very happy also with the way we are entering the third quarter. In terms of subscription in security, the security is definitely a major portion of sales to new customers and large projects, but recently subscription is even stronger in capturing the complete, I would say, budget of a customer. It allows us to become very, very strategic and either to displace competition with our managed services or enhance our portion of the customer solution with our hybrid cloud solutions that increase the product as well as the cloud service accompanying it.

So, we are definitely seeing acceleration. We've seen acceleration in subscription revenues in Q2, and we believe the pipeline is also very strong for that for the coming quarters. But we need to see that we'll continue to execute well here.

J. Wolf And that's a global observation, or is that more of an Americas observation?

R. Zisapel — It's a global phenomenon, but the key strength is in Americas given the maturity of cloud -- of the cloud concept and the cloud services, both -- meaning US-based customers and Americas in general. These concepts are less utilized, I would say, in some key markets, in APAC and in some second tier markets in EMEA. So, definitely the US leads here as well.

J. Wolf — Okay. Thank you.

Moderator — Our next question comes from the line of Mark Kelleher with D.A. Davidson. Your line is open.

M. Kelleher — [audio disruption during question]
Hello. Thanks for taking the questions. With respect to sales and marketing, I know you said a lot of [indiscernible] examples of return on revenue. Where does that stand right now? Are you comfortable with your sales organization, or should [indiscernible]?

R. Zisapel — It was very hard to understand you. I think the line is a bit bad, can you repeat the question?

M. Kelleher — Sure. Sales and marketing, can you get some leverage out of that? Are you happy with where your sales organization is right now?

A. Earon-Heilborn — Cynthia, if you heard this, can you maybe repeat the question to us? Maybe it was only on our side, it is not clear.

Moderator — And it is sort of staticky, but if you can repeat it one more time, Mark, and I will try to repeat it for them?

M. Kelleher — Okay. Sorry about the phone line. I'm just looking for sales and marketing, are we getting any leverage there? Are we happy with where the sales organization is right now?

Moderator — He wants to know if there is any leverage in sales and marketing.

R. Zisapel — Okay. I think there is. A lot of our investments are obviously -- we are seeing the expenses first and the leverage later. I know there is around 15% increase in sales and marketing this quarter versus the previous year, and those are obviously investments that we are making for growth in the future. They are targeting key verticals that will see growth in key geographies and solutions.

M. Kelleher Okay. Thank you.

Moderator Thank you very much. And next we’ll go to the line of Catharine Trebnick with Dougherty and Company. Your line is open.

C. Trebnick Oh, thank you, and thanks for taking the question; a couple questions. On geo, I noticed that EMEA has been down quite a bit year-over-year since September 2015, and then also Asia-Pac seemed to dip both year-over-year and quarter-over-quarter. Are there any dynamics going on in terms of opportunities that aren't happening? Can you give us some more color on that? Thank you.

R. Zisapel Yes. I think as we've discussed in previous calls, in APAC we've done some changes and enhancements to our go to market plans there. We believe in both EMEA and APAC that we are going to see better results in the second half, if we look on that in aggregate.

We do see some weakness in some international markets, in EMEA as well as some markets in APAC that worsens. But we believe, given where we stand today, the pipeline, our visibility is the second half also in these markets will be positive.

C. Trebnick — Well, when you're saying weakness, are you talking in terms of the macro, Roy, or are you talking in terms of actual demand for specific like DDoS or ADCs?

R. Zisapel — I'm not speaking on macro. I'm speaking on the projects we are seeing and, most importantly, on the velocity at which they were closing. So, in EMEA in the last quarter and in some key markets in APAC, we have seen delays in budget allocation, in sense of urgency and other priorities. In APAC specifically, we also have some markets that are weak for us like China, etc., for other reasons: the way the market is behaving, local competition, pricing, etc.

C. Trebnick — Okay. So, all right. Thanks; one other question. So, you did say subscription was strong. Can you give a more quantitative around that for the modeling purposes? Was it up year-over-year, your subscription services, 90%? Can you give us some more quantitative data around that?

R. Zisapel — Yes. We are not breaking it, but I think if you go back to Doron's comments and you look in the comparison between the two -- between this year and current year on the numbers we shared, you'll see there around 20% increase in the complete backlog of the deferred. It's predominantly coming from growth in subscription.

C. Trebnick — All right. That's it. I'll catch you on the post-call for the follow up questions. Thank you.

R. Zisapel — Thanks a lot.

Moderator — Next we'll go to the line of Rohit Chopra with Buckingham Research. Your line is open.

R. Chopra — Thank you very much. A couple of questions. One, the first one, I just wanted to get a sense if there was any currency impact maybe on the topline, if you can give us a sense if there was any translation issues possibly that impacted the topline.

And the second question, I think I just wanted to come back to something. The enterprise number wasn't that great sequentially. And what I really wanted to understand here, is there any competitive impact here? And Roy, the reason I'm asking you is I think it was two and a half or three years ago where you mentioned that when F5 came out with their new products, you saw a dip down in pricing. So, I'm wanting to get a sense if you're seeing anything like that this time as they release their new product cycle.

R. Zisapel — Okay, so let me take this question first, and then Doron will answer on the exchange. So, we don't see any of the pricing dip, etc. I am not sure F5 is still out with their products for the ADC market refresh, so we are not seeing any such phenomena.

I think it's a combination of our weak -- weaker results than we wanted in EMEA and APAC that are -- especially APAC more skewed into enterprise market and, in Americas, the split of subscription versus product sales which also impacts our revenue recognized from that segment in the period.

However, when I'm looking on the booking of the Company and the projects actually won and the orders, I am seeing good results in enterprise, very strong growth in Americas, and better than what you are seeing in the revenues in the other regions. So, I know from the number analysis currently on the quarter on the revenues it looks like a strong decline, but it's not versus the orders and the projects that we are winning.

D. Abramovitch — And as for your other question, Rohit, in terms of the expenses, we do see a slight increase in terms of the -- due to the fluctuations in the currencies, something like $0.5 million, not more than this. As for the revenues, we didn’t see something significant, so this is the outcome of the exchange rate.

R. Chopra Okay. And so just lastly, look, Catherine was trying to get to something and she's trying – if the subscriptions are really going to impact the business, I think it would be helpful if you could provide a little bit more data. And I think as you're saying, Roy, that the revenue numbers, they look kind of, let's just say, flattish. But if there is a percentage you can give us in the future or something like that, I think it would be helpful to make a better assessment. That would be great.

R. Zisapel Okay.

Moderator Next we’ll go to line of Ruben Gus with Opus Funds. Your line is open.

R. Gus Yes, thank you for taking my question. It's just a quick question regarding your work with Cisco. So, if I understand correctly, there are two offerings. One would be a part of ASR 9300, and the second would be part of 4000 next generation firewall. And so, my question for ASR, is your DDoS protection the only software which is integrated with ASR? Also I see some publications that Arbor has their DDoS prevention software offer with the ASR. And the same question regarding your next generation firewall, are you the only software DDoS protection company or there are others in the game also like Arbor? Thank you.

R. Zisapel Okay. So, we are installed in the Firepower 9300 and soon in the Firepower 4000 series. We are the only DDoS provider there, the only OEM, and I can refer you to the Cisco website. Please go to the next gen firewall product line both in 9300 and the 4000, and you will see a clear description by Cisco of the line and the fact that Radware is their DDoS OEM partner.

R. Gus So, this is basically just PowerPoint kind of announcement from Arbor that their Peakflow is integrated with Cisco 9300?

R. Zisapel I don't want to relate to what others are doing; I can just refer to you to the Cisco FirePower from the website all the information is there.

R. Gus So, the revenues start being recognized from your work with Cisco on next gen firewall, it's just very small, but you already saw the recognition of the revenues?

R. Zisapel I was pointing to Q3 as the potential start, yes.

R. Gus — Thank you.

Moderator — With that, speakers, I would like to turn it back over to you for any closing comments.

R. Zisapel — Thank you everyone for joining us today. And have a great day.

Moderator — Thank you. And ladies and gentlemen, that does conclude your conference call for today. Thank you for your participation and for using AT&T's Executive Teleconference Service. You may now disconnect.