RADWARE: First Quarter 2016 Earnings Call

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SPEAKERS

Doron Abramovitch - Chief Financial Officer
Roy Zisapel - President and Chief Executive Officer

ANALYSTS

Alex Henderson - Needham & Co
Michael Kim - Imperial Capital
Jess Lubert - Wells Fargo Securities
Ittai Kidron - Oppenheimer
Joseph Wolf - Barclays Capital
Mark Kelleher - D.A. Davidson & Company
Rohit Chopra - Buckingham Research
Catharine Trebnick - Dougherty

PRESENTATION

Moderator: Good morning, ladies and gentlemen and welcome to the Radware's First Quarter 2016 Conference Call. At this time all parties will be able to listen only until the question-and-answer portion.

Also, today's conference call is being recorded. If anyone has any objections, please disconnect at this time.

I'd now like to turn the conference call over to Radware's Chief Finance Officer, Mr. Doron Abramovitch. Please, you may begin, sir.

D. Abramovitch Thank you, Allen. Good morning, everyone and welcome to Radware's first quarter of fiscal 2016 earnings conference call. Joining me today is Roy Zisapel, Radware's President and CEO.

A copy of today's press release and supplemental information are available on our website. 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 21, 2016.

And now let me provide you with an analysis of our financial results and business performance for the first quarter, as well as our outlook for the second quarter of 2016. With the current macro environment resulted in a soft opening for the quarter and the shift to a subscription model, we achieved solid results in line with our expectations. Revenues for the first quarter were $48.4 million, within our guided range, and our non-GAAP earnings per share were $0.05.

Looking at the revenues breakdown per geographies, Americas accounted for $20 million and 41% of total revenues, EMEA $12.6 million and 26% of total revenues, and APAC $15.9 million and 33% of total revenues this quarter. Enterprise revenues contributed 71% of total revenues and carrier 29%.

In our press release and in our supplemental financial data accompanying our results, you will find a GAAP to non-GAAP reconciliation of $0.11 difference in EPS for Q1. My comments in the quarter will be focused on the non-GAAP results. The main differences between the GAAP and non-

GAAP results for the quarter are related to stock-based compensation expenses, exchange rates differences, IP litigation costs and amortization of intangible assets.

As we announced earlier this year, we won a patent related jury verdict. The financial aspect of this result which is not final at this time, and may eventually be higher, is not reflected in our financials but only the cost associated with this litigation.

We continue to keep our high gross margin, which remains at approximately 82.7% for this quarter. Our operating expenses were $39.1 million, in the low range of our expectations. Our effective tax rate was 14%.

The net income this quarter was $7.3 million or $0.05 per share diluted compared to net income of $10.5 million or $0.22 per share diluted in the first quarter of 2015. Weighted average number of shares using computing diluted net earnings per share for the first quarter was approximately 44.6 million shares. We ended the quarter with approximately 44.2 million shares outstanding.

Turning to the balance sheet. As of March 31, 2016, we had approximately $315 million in cash and financial investments. Cash flow from operations during the quarter was $8.8 million.

In the first quarter and according to the plan approved by the board, we repurchased 627,000 shares for a total of approximately $6.8 million. Given our strong cash position and positive outlook for continued cash generation in 2016, we plan on executing our new $40 million share buyback plans. DSO at the end of the quarter was 52 days, inventories were $16.6 million and capital expenditures were $2.6 million.

Let me now focus on our deferred revenue trend. Our short-term and long-term deferred revenues increased 10% effective year-over-year in total to $80 million. Adding to this amount, deferred revenues which are offset against trade receivables as they were billed, but neither paid nor recognized yet, bringing the total deferred revenue balance to an amount of $98 million at the end of Q1 2016, up by 12% year-over-year.

We are pleased with the increase of our deferred revenue, as we migrate further into cloud, product subscriptions and service as a business model. We ended the quarter with 1,015 employees, an increase of approximately 10% from last year.

Moving on to our outlook for the second quarter. We continue to take into account the macro environment and the impact of uncertainty. We remain optimistic and focused on our execution, our new offerings and our anticipated growth for the second half of 2016. Our revenue guidance for the second quarter of 2016 is $48 million to $51 million.

Gross margin is expected to be approximately 82.5%. Our non-GAAP OpEx will be in the range of $39 million to $40 million. We forecast the non-GAAP effective tax rate of 16%, and our non-GAAP EPS is anticipated to be in the range of $0.04 to $0.06 per share.

With that, I will turn the call over to Roy Zisapel.

R. Zisapel — Thanks, Doron. During the first quarter we experienced a somewhat challenging environment across the world in both enterprise and service provider markets; however, given overall market conditions, we performed within our projected revenues forecast and financial performance. We still saw weaknesses in several geographies across the world, such as China, Russia and Brazil. But on the other hand, we are starting to see better pipeline and deal flow in the US market, both in enterprise and carrier and service provider markets.

Last quarter we mentioned that we are starting to see improvement in the US service provider market, and we saw this trend continuing in the first quarter. One of the wins we had was a significant ADC bid in a US mobile provider to upgrade their aging Cisco ACE equipment for state-of-the-art Alteon ADCs.

During the first quarter we announced another cloud provider security win, this time TeraGo in Canada. TeraGo networks owns and manages the national IP network providing services to 46 major markets across Canada. The company operates seven data centers, including two Tier 3 datacenters in Ontario and British Columbia and provides the full spectrum of cloud hosting and cloud solutions.

After over a year of evaluating many of the solutions in the market TeraGo has selected the Radware Solutions pack, including DefensePro and the DefenseFlow security automation solutions to power TeraGo's new suite of security services across the Telco, Data Center and Cloud Hosting Environments. We believe we continue to be very well positioned in the service provider segment, and we are encouraged to see some of the longer term projects we were working on starting to advance now.

Continuing on the product front for the service provider market, we made a significant product announcement in the past quarter for application delivery in NFV environments. The Radware Alteon NFV software now delivers over 200G capacity in a truly virtual NFV environment. This achievement is important on multiple fronts. For the first time mobile operators, Telco's and ISPs can manage more than 200G capacity without the need for proprietary devices and utilizing off-the-shelf x86 servers.

It allows carriers to completely provision, configure and manage the application delivery as part of its comprehensive cloud architecture, rather than as a separate appliance. And Radware's performance is over five times the competition, demonstrating the strength of our unique software architecture. We believe in 2016, we will start seeing the first production tenders for NFV ADC, and we believe it's a strong potential for our application delivery business.

Another major event this past quarter was our patent litigation success. In short, the jury upheld all of Radware claims and reinforced our intellectual property strengths, ingenuity and innovation leadership. Given the strength of our patents, F5 considered infringement of our patents even before the trial started. At trial, the jury upheld the validity of Radware patents. The jury found that F5 willfully infringed upon Radware patents, and Radware was awarded $6.4 million in initial damages. The jury's unanimous finding of willful infringement means that the court may treble the damages after trial. As Doron mentioned, none of these damages awards are yet to be reflected in our financials.

We believe our patented link load balancing technology has tremendous importance in enterprise networks and datacenters, and this is amplified by more and more enterprises accessing cloud applications over multiple ISP links. We intend to continue to enforce these patents across the industry and leverage our IP to increase our share.

As we discussed in previous calls, we are transitioning core pieces of our business to subscription revenues. In the first quarter, we had over 10% of our booking come from subscription sales, predominantly cloud and product subscriptions. We continue to see the trend of our total deferred revenues, including those that were billed but neither paid nor recognized yet growing, and we finished the first quarter with $98 million of deferred revenues, up 12% year-over-year. We believe this is a leading indicator for the growth of our subscription business.

Overall, we see more transactions where customers are consuming our products and solutions, either completely as a service over cloud subscriptions, and managed services are a bigger portion of the deals. While in the short-term it has a negative impact on revenues versus a straight product purchase, we see the strong growth in cloud and product subscriptions as a clear positive for the business. It provides for larger deal sizes, more strategic positioning within our customers' organization and strong potential for renewable revenue stream and enhancements.

Looking into 2016, we believe we're making solid progress in our business. So far, first half results progress is generally in line with our full-year plan, and we continue to forecast double-digit growth in second half of 2016. Furthermore, we are forecasting growth in deferred revenues, driven primarily by our growing subscription businesses. We continue to enjoy a strong cash position of $350 million, which we intend to use strategically to enhance our portfolio as well as finance our buyback plan.

We are very excited by the opportunities ahead of us, especially in the cyber security space. We provide the best attack mitigation solution in the market with a complete datacenter and cloud solution, and we plan to focus more and more efforts on the security market and the datacenter application security market in particular.

With that, I would like to open the discussion for Q&A.

Moderator (Operator instructions.) We'll first go to the line of Alex Henderson with Needham & Co. Go ahead, please.

A. Henderson Hey, guys. So obviously the acceleration and the transition to subscription is impacting your guidance on revenues, and that obviously runs through the income statement. Can you help us quantify what the apples-to-apples growth rate would have looked like had you had the subscription business sold under the normal course of business, the way you were doing it before this shift to subscription accelerated? Can you give us some sense of what the baseline growth rate would have look like?

D. Abramovitch Sorry, it's hard for us exactly to quantify because some of the deals that we closed are not even involved. So they don't appear in the deferred as the invoicing is based periodically on the contract. So it's hard for us financially to decide how to quantify it. Currently in all the deferred revenues figures we are providing those deals that are invoiced quarterly or yearly are out of the calculation.

Having said that, I think if you look on the last two quarters of the second half of ’15, we would have been up year-over-year in terms of revenue recognition, if all the subscription business would have come in all the deals, all the cloud deals that we’ve signed up would have come this straight product deals with maintenance attached to it.

We believe that starting the second half of ’16, you’re going to see more and more of the subscription deals coming into recognition from previous periods as the key impact started roughly a year ago.

A. Henderson Okay. So is it fair to say that you’re at least absorbing 6% to 8% headwind to revenues based on the conversion to subscription? Is that kind of the right way to think about it?

D. Abramovitch I think so, especially if you take, as I said, the deals that are contracted, but not even billed, not even invoiced.

A. Henderson Okay. So the second problem in the quarter was there is obviously some softness in the enterprise market in January and February given angst in the marketplace. The consideration of that seems to have abated in March and into April according to other companies, yet your guidance for the upcoming June quarter is down roughly 10% at the midpoint. So are you seeing an abatement of that pressure in the marketplace and if so, why is the rate of decline still so steep in the second quarter?

D. Abramovitch Yes. So, I think what you're seeing in the second quarter phenomena is we don't think bookings year-over-year there should be much weakness. I would say that, and then revenue recognition we have some subscription changes that we need to take into account.

But overall, year-over-year from a bookings perspective, I don't think we're forecasting any more decline in Q2.

A. Henderson I see. So it's just a function of the subscription that's causing as opposed to the macro conditions?

D. Abramovitch Subscription and revenue recognition, yes.

A. Henderson Okay. I'll cede the floor. Thank you.

Moderator We'll next go to line of Michael Kim with Imperial Capital. Your line is open.

M. Kim — Hi. Just to clarify on the second half expectations or outlook. Were you primarily referring to the subscription part or overall business based on your billings outlook, or bookings outlook, that you should be able to have combined growth in the second half?

D. Abramovitch — Overall.

M. Kim — And I guess, do you see, I guess it sounds like that the mix from subscription will be pretty consistent then through the balance of the year?

D. Abramovitch — I believe subscription piece is growing. It has grown last year, and we believe it continues to grow.

M. Kim — And then just lastly on the service providers, are you seeing security becoming a larger component of the deals that you're completing now, or what has been the underlying trend in service providers?

D. Abramovitch — I think service providers today security is a major area of, on one hand concern on their own data centers and investment towards their customers. So definitely that's something that's top of mind in almost all the carriers around the world. Together with that, there's initiatives of cost savings, new architectures, cloud NFV, and in that I don't think the actual budget allocations are at the same level as security yet in ADC NFV or ADC cloud from the carriers. But we do believe things are warming up there.

As I've mentioned in my remarks, we do see the first production tenders of NFV now being released for ADC not NFV in general. NFV ADC are now being released, and we think that can be another very good market potential for us. But definitely security across the world in carriers is a strong market.

M. Kim Okay, very good. Thank you.

Moderator And we'll now go to line of Jess Lubert with Wells Fargo Securities. Go ahead, please.

J. Lubert Hi guys. Couple questions. First, I wanted to follow up on one of the previous questions and I was hoping to provide some more details regarding the factors driving your confidence we'll see a return to double-digit growth during second half of the year. It would seem to embed much better than typical seasonal trends during Q3 and Q4. So you talked a little bit about subscription. Can you maybe just touch upon some of the other factors that are leading you to believe that we'll see a big ramp-up in

Q3 and Q4? Are there are some big deals? Are there are some other factors that are giving you visibility here?

R. Zisapel So, first, I think and very important is the subscription and the deferred revenues and the amount of revenues to be recognized from previous periods. That by itself gives us a good head start.

The second thing we're seeing and I've mentioned a bit about it in my remarks is that some of the long-term projects we were working on and were progressing extremely slowly over stock, in service providers, in government in the second half of '15 and so on are starting to advance back. We forecast them to be recognized in Q3 and in Q4.

And the third topic is that we are seeing some of our businesses, especially the cloud security business accelerating. And also that recognition currently very small, even if you see some numbers in the deferred as we're starting to onboard customers. Customers are getting into full quarter of recognition. And we're going to see I think an accelerated trend versus the overall service, deferred service timeline of revenue recognition, but that's more standard.

Last but not least we've made some investment in the sales organization, both in the U.S. and in Asia-Pacific, etc., and we think we're—also there our execution is starting to increase. So just to summarize, while the overall market conditions were not as good as we wanted them to be, internally the company we think we are making the right advancements.

J. Lubert — Roy, I didn't hear you mention Cisco and the partnership there. Can you kind of help us understand how you're thinking about the opportunity there in the second half?

And my last question would be I'd love to get a sense just on how the availability of public cloud solutions is or isn't impacting your business and to what degree you think you are losing opportunities, the solutions like the Amazon elastic load balancer?

R. Zisapel — Okay. So Cisco is the first product to market. The 9300 is now generally available for several weeks, and we're starting to generate there the pipeline and the training and so on. If you recall, the recognition we will start one quarter thereafter, in the quarter after the current fiscal quarter of sales, so that would start in our calendar Q3.

We believe that we and Cisco are about to release currently in the third quarter additional products that will use our software, a broader set of Cisco products that will have even further appeal to the enterprise market and that should drive more potential and more revenues.

We're basically looking today that the whole next-generation Cisco platform is going to include Radware module in it. And then Cisco ramps its sales and replaces the current security product line with the next-generation product line, the potential is substantial.

At this point we don't quantify it. We don't have enough data to quantify, but relative to other numbers we think this is a very, very substantial opportunity both in revenues and even more so in gross margin and profitability.

Regarding public cloud, in public cloud if a company is starting its business in public cloud, it definitely negatively impacts our ADC business because they will probably use the internal load balancer, be it the Amazon or Azure [ph] and so on.

If the company has a hybrid approach, they'll probably continue to use our solution, the private data center and then either use us on the public cloud or choose. If the application is separate or unlinked to the enterprise data center they might choose the local load balancer in the cloud.

So public cloud as a whole is negatively impacting the ADC growth rates. It does not change at all or does not impact private cloud or hybrid cloud business in existing and mid-size or large enterprises. It does impact definitely new startups and some small, medium businesses that build everything within the public cloud and to some extent a portion of the application in the high-end inner market.

I believe this is the prime reason that the ADC market that used to be double-digit growth rate per year is now, I would call it 0% to 5%, because some of the market is unseen by the regular vendors.

Regarding security, public cloud on the other hand is a major opportunity, because they need to protect number one, the cloud providers need to protect the platform itself against attacks. You cannot absorb a DDoS attack against a tenant [ph] in regular data center, even with Amazon. It's a major risk for the platform. And, as I move to public cloud, especially if I'm a large enterprise, there is no reduction in security requirements; I need to have the same compliance, I need to have the same security tools, security capabilities, and that bodes very well for our security offering, whether it's in terms of virtual appliance in the public cloud or as the cloud service.

So on security, public cloud actually brings more applications, more tenants, more complexity, more vulnerability because it's open for everyone versus closed in an enterprise data center, so positive for security, negative to ADC.

J. Lubert Thanks, Roy.

Moderator We'll next go to the line of Ittai Kidron with Oppenheimer. Go ahead please.

I. Kidron Thanks. And thanks for the color. Doron, can you talk about your deferred and that $98 million balance that you talked about which includes unbilled? Correct me if I'm wrong. As I think about your commentary in the second half, are there big chunks of revenue there that are kind of either milestone driven or anything like that that you have very good visibility kind of coming off from differed into revenue? Is that the way I need to think about this?

D. Abramovitch No, it's not a chunk that will be recognized. It's a process, and I think that we'll try to emphasize it. The good thing and when we see the second half of 2016, the part of the optimism that we're having in terms of revenue recognition, the sales that will grow by double digits is that some part of this $98 million will be recognized. But it's not as if it's one customer or one chunk that it will be recognized and then will be some one-time growth. It's a process, it's something that we see Q-over-Q. We see the growth of the backlog that we start in the quarter in terms of recognizing the revenue. So this is a good thing.

I. Kidron Okay. So I should not assume then that this balance would shrink in the second half of the year sequentially, but rather should continue to grow, yes?

D. Abramovitch Yeah, on the contrary, we expect it to grow like Roy mentioned, that the booking is okay in the first half. We are not declining, so eventually we need to see it in the deferred, and it's very, very positive as we see it.

R. Zisapel On a year-over-year basis, you should look at the deferred and total deferred to be growing.

I. Kidron — Yes, that's for sure, but I want to understand whether sequentially it will grow as well, because if it's not, that would mean that you're drawing a lot out of it into revenue recognition, which is not an optimal scenario.

R. Zisapel — Yes, so sequentially it depends on some of contracts renewing or not renewing and so on. Overall, the trends should be positive. Is it every quarter positive? I'm not sure it's the right way to look on the business because the customers are, annually—annual contracts, but overall the trend should be positive. If you look couple of quarter also, it should also remain that trend.

I. Kidron — Okay.

R. Zisapel — But there will be some sequential, I would say maybe reductions over normally. Year-over-year it's the prime and the growth rate is the prime indicator.

I. Kidron — Okay. As I think about the difference between that $18 million gap between your $80 million of deferred and the $98 million that we gave, if you had to put that on the balance sheet, would the mix of short-term to long-term of that $18 million would be similar to your deferred mix?

D. Abramovitch Yes, basically yes.

I. Kidron Okay, very good.

R. Zisapel Please note that on top of those two numbers, there's contracts that we know of, so there are contracts that we are billing like this quarter and next quarter that are committed by the customers but do not appear because we were not invoicing them.

I. Kidron But that's the $18 million gap right?

R. Zisapel No. That's on top. Eighteen was billed, invoiced.

I. Kidron I see. How much is the unbilled?

R. Zisapel We don't have the numbers, but it's not an insignificant amount, let's call it this way.

I. Kidron Okay. All right. And then lastly from me, as I think about renewal rates you talked about, can you talk about how renewal rates have been tracking so far? What is the churn that you have at time of renewal?

R. Zisapel — We didn't see a lot of change there. It's quite the same. I think we're tracking on a dollar basis around 90% give or take on dollar value, but I don't have the figures in front of me.

I. Kidron — Okay, very good. Good luck, guys.

R. Zisapel — Thanks.

Moderator — We will go to the line of Joseph Wolf from Barclays Capital. Please go ahead.

J. Wolf — Thank you. Just quick housekeeping, I may have missed this, but did you give the deferred revenue number, the like number for $98 million for the third quarter and the fourth quarter of '15 or could you give that if you did not?

D. Abramovitch — No, we didn't. We will give it during the year. So we just give the numbers, the sequential and year-over-year right now.

J. Wolf — Okay. Can you talk about, as you talked about the new NFV and the security trends and the subscription trends, are the orders going into the backlog larger or smaller than historical, and how should we think about the role of the $98 million throughout the year? Is that like a year from now we should be thinking about that as you talked about a year from now anniversary and the move to subscription?

R. Zisapel I'll take the first question; Doron will take the per year. And so the deals that come in, it depends on the mix. If it's a regular product deal, it behaves roughly the same as it used to. Especially in security, we might combine it with the cloud subscription; in that case it probably doubles the deal size, the initial deal size assuming the contract is for two to three years, I would call it. Revenue recognition of such deals will differ, depends on the deal structure, but generally will be deferred—holding, including the product piece will be differed across the cloud and managed service contract of that deal.

So these deals in security that we're seeing are roughly between 50% to double in size the product piece itself, and it has the strong renewable component into it once the cloud contract is finished.

D. Abramovitch As for the 98 now, we broke it this quarter into what you see in the balance sheet, which is the 80 million versus the 72 that we had last year and the 98 versus the 87. The trend is similar in a way. Like Roy says in the previous question, sometimes in some quarters there is some disruption. But overall, it's the same trend, and so the 98 should grow in the next quarters. Again, Q-over-Q, if we will continue with the same trend of the bookings that we see and the improvement that we plan to see in the second half, we just emphasize it.

J. Wolf Okay and just one last question, in terms of you talked about the $40 million buyback, any plans to accelerate given the share price currently?

D. Abramovitch I think we have discussion and policy from the board, and we will execute it. We cannot share more details at this point. But you've seen in the past two years, we were executing the plans.

J. Wolf Okay. Thank you.

Moderator And we'll now go to the line of Mark Kelleher with D.A. Davidson & Company. Go ahead, please.

M. Kelleher Great. Thanks for taking the questions. Just first as a clarification on the Cisco ramp, so we're not really looking for any Cisco ramp in Q3 and Q4. We're waiting for those new products to be introduced in the enterprise. Is that accurate for the 2017 ramp?

R. Zisapel — No. We will start seeing this year the initial revenues, but this is like a delayed window. So Cisco is now starting the marketing, its GA with the 9300. We will start seeing next quarter the initial sales. And what I said and what's important, the 9300 is the high-end system of the product line. There's also the 4000, 4100, 4110, 4120, 4130, 4140, 4150. That product line with the Radware DDoS is going to be launched around August, September timeframe, and we might change the initial ramp-up in Q4 and the rest in 2017.

M. Kelleher — Okay. And is there any way you can size what the effect of security is right now in your revenue base or maybe the growth of security right now?

D. Abramovitch — Of course, we have this information. We're not breaking it out at this point, but security is growing faster than ADC. That's clear.

M. Kelleher — Okay. And how about a competitive environment update, is there any changes in competitive environment, who you're competing against out there?

D. Abramovitch — I don't think we've seen in the past quarter any significant change. It was clear, I think, towards the end of the quarter that F5 was pressing product revenues. So we've seen some more discounting than regular in the market, but I think it's a quarter phenomenon; I don't think it's a trend.

M. Kelleher Okay. Thank you.

Moderator And we'll go now to line of Rohit Chopra with Buckingham Research. Go ahead, please.

R. Chopra Yes. Thanks very much. I have a clarification, Roy. Last quarter you mentioned that you're expecting growth for the full year 2016. Now you're talking about it just for the second half. I just want to make sure that that's correct. Is that the right way to think about it?

R. Zisapel Yes, although, it's not materially different. We still aim of doing that and to make the model you will see that.

R. Chopra And then I want to ask about—everyone asks about Cisco, but last quarter you talked about Check Point and you'd be moving more products through there. I think there were some other things that they were going to sell, but can you just talk about the Check Point OEM? Is that increasing, decreasing, flat? Can you give us a sense of what's happening there, please?

R. Zisapel In Q1, we didn't have a great result from Check Point, but the overall trend continues to be positive. The pipeline is increasing. They started to carry our cloud, our security cloud offering. As a matter of fact this quarter they already ramped up customers to the cloud platform, so we are expanding the relationship with them.

R. Chopra Thanks very much. Appreciate it.

Moderator (Operator instructions.) We'll go now to line of Catharine Trebnick with Dougherty. Go ahead.

C. Trebnick Yes. Thanks for taking my question. Enterprises was a tad bit weakened. Could you discuss what were they key products that you were selling in the enterprise, particularly in North America and Europe? Thank you.

R. Zisapel It's a little different, we're selling both the ADC and the security. We had a weak start for enterprise, but it has improved during the quarter. I don't have anything special or more specific than the general comments we've made.

C. Trebnick — All right, then I noted the OpEx kicked up. It was 50% of total revenue. What's your outlook for OpEx for the rest of the year? Are you going to continue to spend for investment or are you going to trim it back with the recent decline in revenue? What's your thoughts on that?

D. Abramovitch — We plan not to be in the $48 million in the next—in the second half. So obviously we plan to do better. So the margins or the ratios will be of course different. Having said that, Roy mentioned we started the end of 2015 with some adjustment in the sales teams, and we plan and continue to monitor our OpEx very carefully.

We don't plan to extend our OpEx for the next quarter. We still plan for $39 million, $40 million. I assume that this is the range that we will take for the next a few quarters, if we take out some commissioned issues that can change, and we hope that we will paid these commissions. But overall this range is something that we feel comfortable with the next few quarters as our plan for the OpEx.

C. Trebnick — All right. Thank you very much.

Moderator — And we have no further questions in queue at this time. You may proceed.

R. Zisapel — Okay. Thank you very much, everyone, for attending, and have a great day.

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